



**EAST INDIA (CONSTITUTIONAL REFORMS)**

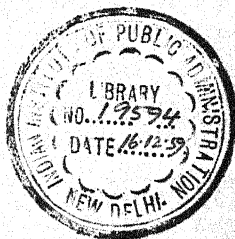
**REPORT**

of the

**Indian States Enquiry Committee  
(Financial)**

**1932**

*Presented by the Secretary of State for India  
to Parliament by Command of His Majesty  
July, 1932*



**CALCUTTA : GOVERNMENT OF INDIA  
CENTRAL PUBLICATION BRANCH  
1932**



Lx 54013  
Un3  
C.2

The total cost of the Indian States Enquiry Committee (Financial)  
is estimated to be about £10,605.

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## INDIAN STATES ENQUIRY COMMITTEE (FINANCIAL).

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### LIST OF MEMBERS.

The Right Hon. J. C. C. Davidson, C.H., C.B., M.P., *Chairman*.

Sir Reginald Glancy, K.C.I.E., C.S.I., *Deputy Chairman*.

The Lord Hastings.

Major-General Sir Robert Hutchison, K.C.M.G., C.B., D.S.O., M.P.  
(now Lord Hutchison of Montrose).

Sir Maurice Gwyer, K.C.B., K.C.

Sir Charles Stuart-Williams.

Mr. J. R. Martin, C.I.E.

TO THE RIGHT HON. J. RAMSAY MACDONALD, M.P.

SIR,

We were appointed by His Majesty's Government for the purpose explained in the following letter which you addressed to our Chairman on the 16th December, 1931 :—

“ On behalf of His Majesty's Government I have to state for the information and guidance of yourself as Chairman of the Indian States Enquiry Committee (Financial) and of your colleagues on the Committee the objects for which the Committee has been constituted and the specific issues on which it is required to report.

In my declaration of 1st December the intention of His Majesty's Government was announced to set up, among other committees recommended by the Round Table Conference, a committee to explore more fully the specific financial problems arising in connection with certain individual States. The recommendation in question will be found in paragraphs 46 and 47 of the Third Report of the Federal Structure Committee which dealt with the particular financial problems relating to the States discussed in paragraphs 17—20 and 26 of its Finance Sub-Committee's Report.

An ideal system of federal finance would be one under which all federal units would contribute on a uniform basis to the federal resources. The task of the Committee is, briefly, to determine how far and in what respects the attainment of this ideal is affected by two particular elements in the existing situation :—

- (a) the ascertained existing rights of certain States, and
- (b) certain contributions of a special character which many States are now making or have made in the past to the resources of the Indian Government.

The items, an examination of which by the Committee has been specifically recommended by the Round Table Conference, are, under (a)—

varying measures of privilege or immunity enjoyed by certain States in respect of external Customs and Salt ;  
and, under (b)—

- (1) cash contributions ;
- (2) value of ceded territories.

The issues on which the Committee are required to report are accordingly as follows :—

- (1) to review the origin and purpose of all cash contributions with a view to advising whether they should be immediately reduced or eventually extinguished in the

manner contemplated in paragraph 18 of the Report of the Federal Finance Sub-Committee or must be regarded as outside the scope of that recommendation as being for special and local purposes or by way of payment for material assets, such as land, still in the possession of the contributing States ;

(2) In regard to territories ceded\* by certain States to the British Government in return for specific military guarantees :

(a) to compile a list of such territories ;

(b) having regard both to the circumstances of the original cession and to the financial and other conditions now obtaining, to express an opinion as to whether any financial adjustment should be made in favour of the State concerned as a part of the terms of its federation ;

and if so, to make specific recommendations ;

(3) in regard to the varying measures of privilege or immunity in respect of Customs and Salt enjoyed by certain States :

(a) to investigate the position in each State with a view to determining the value of the ascertained existing rights in question ;

(b) to express an opinion as to what compensation it would be worth while for the Federal Government to offer in return for the relinquishment of the special privileges which each State now enjoys or such modification thereof as may appear to the Committee to be an essential preliminary to Federation. In framing such terms it would be open to the Committee to make allowance for any contributions of special value which the States in question might have made, or be making to the resources of the Indian Government.

In the fulfilment of their task the Committee may find some existing facts in the financial or contractual relations between the States and the British Government in India, which are not specifically mentioned in their terms of reference, but which have so close a bearing upon the matters remitted to them that they cannot, in the Committee's view be disregarded. It will be open to the Committee to take such facts into account in formulating their recommendations."

Having completed our enquiry into the questions referred to us we now have the honour to submit our Report for the consideration of His Majesty's Government.

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\*This term does not include the leased territory of Berar.

## CHAPTER I.—INTRODUCTION.

### Field of Enquiry.

1. The field of enquiry defined in our Terms of Reference comprised the examination of the specific financial problems arising in connection with certain States in the light of recommendations in the Third Report of the Federal Structure Committee and in paragraphs 16—20 of the Report of its Finance Sub-Committee, which will be found reproduced for convenience of reference in Appendix I to this Report. In view of the extent and diversity of the field that had to be covered, it appeared to us from the outset that we could not adequately appreciate the points of view of the various Indian States unless we had visited as many as possible of the more important of them and had had personal discussion with the Rulers or Ministers of others at convenient centres. The extent of our tour had, however, to be determined by the time available, for we had reason to believe that the submission of our Report was desired at the earliest possible date.

2. The Indian States have been described in general terms in Chapter IX of the Report of the Indian Statutory Commission, 1930, and are there classified into 215 States and 327 Estates, Jagirs and others\*. These two categories represent together, according to the provisional figures of the Census of 1931, a total population (excluding Burma) of 81,310,845†. It is obvious that we could only select a limited number of these States to visit, and we had to consider the most convenient method of arrangement of our tour in order to economise time and expense of travelling by rail and road. Thanks to the prompt and generous hospitality which we received from the States, great and small, and to the facilities of travel by rail and road which the States which we decided to visit placed at our disposal, we were able to carry out, in as economical a manner as the circumstances permitted, a very wide survey of the areas in which our investigation lay. Our journeys in India and along the coast comprised 8,476 miles by railway, 1,704 miles by road and 411 miles by sea.

### States visited, or with whom discussions were held.

3. Landing in Bombay on the 29th January, the Committee, in whole or in part, visited personally the places indicated in the map which is shown as the frontispiece to this volume, including, in the

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\*This classification is adopted from the Report of the Indian States Committee, 1928-9, presided over by Sir Harcourt Butler, and groups States in accordance with their representation, direct or indirect, in the Chamber of Princes.

†In 1921 the population of the Estates, Jagirs, etc., amounted to 801,674.



order of our journey, Hyderabad, Mysore, Cochin, Travancore (with the ports of Alleppey and Quilon), Kolhapur, Sangli, Baroda, Jamnagar, Cutch ; the ports of Veraval and Mangrol in Junagadh, Porbandar, Okha (Baroda), Bedi (Nawanagar), Mandvi and Kandla (Cutch), Navlakhi (Morvi) and Bhavnagar ; Ratlam, Indore, Bhopal, Narsingarh, Dhar, Datia and Rewa in Central India, as well as Gwalior ; Udaipur, Kotah, Jaipur, Jodhpur, Bikaner and Dholpur in Rajputana ; Kapurthala in the Punjab States Agency and Tehri-Garhwal in the United Provinces. We also conducted discussions in Sangli, Bombay, Rajkot, Indore, Bhopal, Ajmer, Delhi, Simla and Sukkur with other Rulers and Ministers of States which we had been unable to visit in person, and with representatives of the Governments of India and of Bombay.

4. The number of States with whose Rulers or Ministers discussions have taken place is 88, and there have been several meetings with deputations representing whole classes of smaller States, such as the Simla Hill States and the lesser States in the Bombay Presidency and Kathiawar ; while, in addition to meeting in Delhi certain Rulers and representatives of States in Bihar and Orissa and the Central Provinces, we discussed the questions affecting these States with Mr. A. C. Lothian, of the Indian Political Department, who had recently carried out an extensive enquiry into their status and conditions.

#### **Memoranda received from States.**

5. Owing to the short time at our disposal before sailing for India and to the clear terms of our instructions, we decided not to issue a questionnaire to the States in advance of our arrival, but we asked to be supplied with memoranda dealing with the subjects committed to our investigation as they affected each State individually.

6. On arrival in India we found that it would be of assistance to the Darbars to receive some more precise indication of the questions with which their representations should deal. We accordingly issued, for distribution through the political authorities to the States concerned, the memorandum of which a copy is reproduced as Appendix II to this Report. The representations which we received from individual States in response to our request numbered 205. Had it not been for the material we thus received, we should have been unable to elicit the information essential for the completion of our enquiry. We have also to thank the Government of India and its officers at headquarters and in political Agencies under its control, as well as the local Governments and their officers through whom relations are conducted with certain of the States, for the supply of valuable material and for personal hospitality.

#### **Method of work adopted by Committee.**

7. The method which from the outset we decided to adopt at our meetings with the Rulers and Ministers of the States was one of

informal conference ; no formal evidence was taken, and no verbatim records were made of our discussions, but we made it a practice to obtain the general concurrence of the Darbars in the notes which we preserved of these proceedings and in the communications made from time to time to the Press regarding the subjects which at each centre had been under discussion.

8. For convenience of handling the various subjects committed to our investigation, the Committee was divided into two main Sub-Committees, under the Chairmanship of Lord Hastings and Major-General Sir Robert Hutchison respectively, which dealt, on the one side, with the varying measures of economic privilege or immunity enjoyed by the States, and, on the other, with cash contributions and ceded territories. Where these matters required separate discussion the Sub-Committees met the Ministers of the States in separate conferences, but as a rule the proceedings in each State were begun and ended with general meetings in which the whole of the Committee took part.

9. For reasons of time it was found necessary to divide the Committee into two independent sections for the purpose of visiting the more important States of Rajputana and Central India, the first under the Chairman, the second under Sir Robert Hutchison, and at an earlier stage of the tour Lord Hastings and some of the Committee made a personal inspection of the ports of Cochin and Travancore and the backwaters connecting them and also of the ports of Kathiawar and Cutch.

#### **Official Publications utilised.**

10. Of the various official publications which have been of special utility to the Committee, apart from the proceedings of the Indian Round Table Conference, we would mention the Report of the Indian States Committee 1928-29\*, under the Chairmanship of Sir Harcourt Butler, the Report of the Special Committee appointed by the Government of India to investigate certain facts relevant to the economic and financial relations between British India and Indian States†, of which the first portion appeared in 1930, and, especially, the Supplementary Report issued in 1932 by certain members of the Special Committee, dealing with Ceded Territories, to which reference will be made later in our Report.

#### **Questions raised outside Terms of Reference.**

11. The memoranda received from individual States, to which we have already expressed our great indebtedness, in numerous cases raised issues which we were unable to regard as falling within

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\* Published by H. M. Stationery Office. Cmd. 3302 of 1929.

† Published by Government of India. Obtainable from Office of High Commissioner for India, India House, Aldwych, W.C.2.

our Terms of Reference. The Butler Committee's Report had recommended the constitution of an expert body to enquire further into certain aspects of the financial and economic relations between British India and the States, and the instructions to the Special Committee when constituted in 1930 (before the Indian Round Table Conference) had enjoined them to collect facts and statistics for determining the value of any direct or indirect contributions made by the Indian States as a whole to all-India resources and to assess collectively their proportion of contribution to all-India burdens. In these circumstances many States not unnaturally assumed that our Committee was the expert body charged to investigate individual economic grievances and that the information collected by the Special Committee would be, to a large extent, the basis of our investigation. Our Terms of Reference were, however, strictly limited, and were based on the assumption of federation between individual States or groups of States with provinces of British India which had emerged from the discussions at the Indian Round Table Conference. We were thus unable to take into account many of the claims put forward or to utilise all the material collected by the Special Committee. Our Chairman has brought this matter to the notice of the Secretary of State.

#### Division of Subject-matter of Report.

12. The arrangement of the succeeding Chapters of our Report may be briefly explained as follows :—

*Chapter II* gives a short historical survey of the circumstances in which the States came into relations with the British Government, with special reference to the financial questions which we are required to investigate.

*Chapter III* reviews the cash contributions at present made by the States to the British Government, of which classified lists and a summary are given in Appendices III and IV.

*Chapter IV* discusses the question of ceded territories and the value to be attached to them.

*Chapter V* deals with those miscellaneous contributions from the States which, though not specifically referred to us, we were permitted to take into account under the final paragraph of our Terms of Reference.

*Chapter VI* surveys the immunities which certain States enjoy in regard to the incidence of the Indian salt tax, of which the details and valuation are given in Appendix V.

*Chapter VII* contains a similar survey of problems which arise in connexion with Indian Sea Customs.

*Chapter VIII* deals with miscellaneous immunities or privileges enjoyed by certain States, which are brought under our Terms of Reference in the same way as miscellaneous contributions.

*Chapter IX* states the principles which we recommend should be applied in effecting adjustments with the States individually and our estimate of the effect of our recommendations on the federal budget.

### Statistical Information.

13. In the course of our investigation we have had to deal with numerous statistical details derived from many sources, and the very nature of our task and the limited time at our disposal have made it impossible in many cases to verify the absolute correctness of the figures which we have had to use. We are conscious, moreover, of having been unable completely to exhaust the field of enquiry into individual contributions and immunities. Our main authority throughout has been the collection of Treaties, Engagements and Sanads with the Indian States published by the Government of India under the short title "Aitchison's Treaties"; the 1909 issue of which is being gradually replaced by a new edition which began to appear in 1929; but we have found that even the record in Aitchison's Treaties of payments made by the States, or of immunities which they enjoy, is by no means complete. Thus we must emphasize that the facts and figures set out in our Report and its Appendices, though as accurate as we have been able to make them, should not be taken as complete or infallible records of the details of the matters which we were required to examine. Our recommendations indicate the principles on which we consider that the individual settlements with the States should be made, and we have applied them as far as our time and the available material permitted. We believe that our figures and calculations are in the main correct, but we must ask indulgence for any omissions or errors which may be detected, having regard to the divers authorities from which we have derived our information, the wide field which our investigations cover, and the very restricted time available for completing our Report.

## CHAPTER II.—HISTORICAL SURVEY.

**The Dynasties of India.**

14. India has seen the birth and extinction of innumerable dynasties. From the earliest recorded times there have been empires, kingdoms and principalities, some rising and falling with meteoric splendour and rapidity, others persisting with varying fortunes through the centuries and ruled to this day by the heirs of what are perhaps the oldest aristocracies in the world.

15. Only thrice throughout those many centuries has a single power achieved paramountcy over all India. The first was the Maurya dynasty, of which the most famous name is that of the Buddhist Emperor Asoka, whose beneficent rule was universally acknowledged for a brief period in the third century B.C. The second was the great dynasty of the Moghuls, Muslim invaders from the north, whose empire was founded by Baber in the 16th century, rose to its zenith under Akbar (1556—1605), and declined, as rapidly as it had arisen, after the death of Aurungzeb in 1707.

16. The third is the British Raj. When the status of the East India Company began to change in the middle of the 18th Century from that of a trading concern, with which it had been satisfied since the time of Queen Elizabeth, by the gradual assumption of the responsibilities of a political power, the Moghul empire was fast crumbling to decay. Within the next hundred years, after a period of constant turmoil and warfare, the map of India was redrawn as we see it to-day. The Great Moghul had passed away and India was again unified, but under a new paramountcy.

17. The substitution of a British for a Moghul suzerain did not, however, involve the disappearance of the indigenous principalities. On the contrary, the rise of British power brought with it a new stability to many of India's most ancient dynasties and rescued, or at least ensured the survival of, others which without its aid would certainly have foundered during that century of storm. Some there were which disappeared after challenging unsuccessfully the British power, others through their own inherent weakness and corruption, others again through the failure of natural heirs, and the application of the doctrine of lapse, which is associated with the name of Lord Dalhousie. But after the Mutiny of 1857 this latter policy was openly abandoned and the Princes received from Queen Victoria solemn assurances that their dynasties would be perpetuated.

18. To-day India numbers within her borders nearly a hundred Princes entitled to the appellation of "Highness" and a far larger company of Rulers who, though not honoured with that title, possess and exercise many of the main attributes of sovereignty. It is by no means to be supposed that all Indian States possess an equal measure of internal autonomy. On the contrary while some preserve almost intact their sovereignty outside the sphere of external affairs, others, in varying degrees, are required to accept



advice or even administrative control from the agents of the Paramount Power. But in the territories of all these Princes and Rulers covering an area of 600,000 square miles or more than one-third of the Indian continent, and containing 81,000,000 people, approximately one-fourth of its inhabitants, the laws of British India are not in force and the writs of the King-Emperor's Courts do not run.

19. A glance at the map which illustrates our tour will show more clearly than any written description the varying sizes and geographical distribution of these territories. In the extreme north is the great State of Jammu and Kashmir. Below it are seen the Sikh States of the Punjab and the small States founded long ago in the Himalayas by adventurers from Rajputana, that "teeming womb of Kings." Further to the west are the wide domains of the Muslim Princes of Bahawalpur and Khairpur. The western coast comprises the isolated territory of the Maharao of Cutch and the remarkable peninsula of Kathiawar, a miniature continent including nearly 200 States, Estates and Jagirs, of which at least a dozen are of considerable importance. Close to the same coast and interlaced with districts of British India are the scattered territories of the Gaekwar of Baroda, and a number of smaller States, many of which, like the States of the Kathiawar, owe tributary obligations to that Ruler. In the eastern portion of the map States are few and far between, except for the conglomeration of ancient principalities which occupies so large a part of the area known as Orissa. There are great States in the South :—Hyderabad, the premier State in India, as large as Great Britain and with a population of nearly 14½ millions ; Mysore with its chequered history and remarkable natural resources ; and the rich tropical States of Travancore and Cochin. But it is in the centre of India that princely rule is found most widely established. Within the Rajputana and Central India Agencies are the oldest domains of the Rajput clans, the heads of which claim descent from the Sun and the Moon and still follow in their ancient capitals the traditions of Indian kingship. Here too are mainly established the surviving fragments of the Mahratta Empire, which in its prime took so heavy a toll from the Rajput Princes and contended with the Honourable Company for the paramountcy of India.

20. Into the history of those great events it is impossible for us to enter at any length ; but to show how the Indian States came into relation with the East India Company, and the origins of their present relationship to the King Emperor, we must survey very briefly a few of the major events in the 18th and the first half of the 19th centuries and refer to some developments which followed upon the transfer of the Company's responsibilities to the Crown after the Mutiny of 1857.

#### **Decay of the Moghul Empire and rise of the Mahrattas.**

21. Aurungzeb, the last of the great Moghul Emperors, left on his death in 1707 no successor capable of maintaining the inheritance. But there were already in existence powerful elements

destined in differing degrees and for varying periods to fill the empty places and encroach upon the Imperial domains. For our purposes the most important are the English and French East India Companies, the Mahrattas, the Nepalese, the Sikhs, and the usurpers of the ancient Hindu Kingdom of Mysore—Haidar Ali and his better known son, Tipu Sultan. Mention must also be made of Asaf Jah, founder of the Hyderabad dynasty, who was appointed Viceroy of the Moghul Emperors in the Deccan in 1713, but soon achieved independence of Delhi and became the first Nizam.

22. Meanwhile the star of the Mahrattas was ascendant in the west. Their empire owed its origin to Shivaji, a princely adventurer who, before his death in 1680, had achieved fame by defying the Moghul Empire in its prime and is to this day venerated by Hindus as a national hero. His line is represented to-day by the Ruler of Kolhapur. Shivaji's successors were overshadowed by their hereditary prime ministers, who bore the title of Peshwa. The Peshwas in fact became the real heads of the Mahratta Confederacy, their dynasty lasting from 1714 to 1818. Associated with them from the early days of their ascendancy were four great military leaders known as Scindia, Holkar, the Bhonsla Raja and the Gaekwar. These, with the Peshwa, acquired vast territories in almost every part of India, except Bengal and the extreme north and south, and levied tribute on almost all the ancient principalities. The dynasties founded by three of them (Scindia, Holkar and the Gaekwar) survive today in the great States of Gwalior, Indore and Baroda. The Peshwa and the Bhonsla Raja, being unable to resign themselves to a position of subordination, disappeared long ago from the scene of Indian history.

#### Origins of cash contributions and ceded territories.

23. Hyderabad provided the stage where the various candidates for the succession to the Moghuls came into touch and conflict. The French, the English and the Mahrattas all played a part in supporting various claimants to the throne of Asaf Jah, and it was the French who first devised in 1751 the plan of guaranteeing protection to an Indian Ruler by providing a "subsidiary" force, the maintenance of which was financed by cash contributions or the cession or assignment of specified territories. European military science and discipline were the dominant factors in evolving order out of the chaos of the times. Thus it came about that, as one State after another entered the British system of alliances, they were required to contribute money or to cede territory for the maintenance of troops officered and disciplined by the Company's military establishment, and it was largely through the instrumentality of these forces that turbulence and anarchy gave place to peace and order, and that India was eventually unified under the British Crown. Many of these financial and territorial agreements are still in force, and their liquidation for the purpose of making way for a system more in keeping with the federal ideal constitutes a complicated problem which will receive detailed attention in our Chapters on "Cash Contributions" and "Ceded Territories."

### **Extension of British influence by the Marquess Wellesley.**

24. By 1761 the prospect of French domination in India, at one time a not unlikely issue of events, was at an end, but it was not until 1798 that the Nizam finally disbanded his French mercenaries. In the meanwhile there had been a bewildering series of alliances and counter-alliances. The Nizam invaded the Carnatic districts of Madras in conjunction with Haidar Ali of Mysore, while later he was allied with the English and the Peshwa against Haidar's successor, Tipu Sultan, and participated in the division of the territories surrendered by the latter in 1790. He also co-operated in the second war against Tipu in 1799 and was again rewarded with a share of the spoils. It was on this occasion, after the death of Tipu at the storming of his capital of Seringapatam, that the Marquess Wellesley restored the ancient Hindu dynasty which now rules in Mysore. During the next few years that great Governor-General was busily employed in dealing with the Mahrattas who had become weakened by internecine warfare. The Peshwa, who had been defeated by Holkar, accepted a British subsidiary force in 1802. A similar agreement was concluded with the Gaekwar who, alone among the great Mahratta military powers, never took the field against the Company. With Holkar, Scindia and the Bhonsla Raja matters were not so easily settled. Their attitude at this time was such as to necessitate a declaration of war and, by the treaties which followed their defeat in the field, Scindia lost much territory and agreed to protection by means of a subsidiary force, while Holkar was forced to surrender a large part of his territory. It was not however until 1818, after the defeat at Mandesaur of his army, which had risen in rebellion against the then Regent and attacked the British, that Holkar's claims to tribute from the great Rajput States were renounced and that a British force was permanently located in the vicinity of his capital. The Bhonsla Raja by the treaty of 1803 lost much of his territory as well as his tributary and feudatory rights over the States of Orissa. His successor persisted in hostility to the Company's Government, but the dynasty, with its sway over numerous feudatory States, continued until 1853, when, owing to a failure of heirs, it became extinct, and by the application of the doctrine of lapse its territories fell to the Company.

### **Attempt to repudiate the responsibilities of Paramountcy.**

25. By the time of his premature recall in 1805, Lord Wellesley had done much towards the accomplishment of his declared design "to unite the principal native States in the bond of peace under the protection of the British power" by "establishing a comprehensive system of alliance and political relation over every region of Hindustan and the Deccan." His recall was due to the fact that this policy was cordially disapproved in London, and during the next few years the East India Company made a determined effort to evade and disclaim the responsibilities of Paramountcy. Local events and conditions in some instances proved too strong for the policy of evasion of responsibility and in certain areas necessity demanded action on the lines laid down by Lord Wellesley. It was thus that the

pacification and settlement of Kathiawar began, although it was not concluded until 1820, and relations were established with the Princes and Chiefs of Bundelkhand in Central India. Similarly, in 1808, an internal rebellion in Travancore led to the firmer establishment of British influence over that State, which had already received a subsidiary force by a treaty of 1795. But in Rajputana and Central India the new policy imposed from England was one of renouncing the maintenance and extension of British influence for the sake of a peace that was no peace. Alliances which had been concluded with certain Rajput States were repudiated, and the country was abandoned to the exactions of the Mahrattas and the rapacity of Pindaris and Mussalman freebooters who were content to plunder wherever they could find an opening and to lend their swords to any Chief who would provide pay and booty. The Pindaris were mounted robbers who have been described as "men of all lands and all religions brought together out of the corruption of weak and expiring States, less by despair than by deeming the life of a plunderer, in the actual state of India, as one of small hazard but great indulgence." When the Marquess of Hastings succeeded Lord Minto as Governor-General in 1813 a state of anarchy prevailed, and few, if any, of the States of Rajputana and Central India were capable of carrying on even the elementary functions of Government. "Expression might be racked," wrote Colonel Tod after peace and order had been restored, "for phrases which could adequately delineate the miseries all classes had endured."

#### **Eventual consolidation of British Paramountcy.**

26. The Marquess of Hastings saw at once that it was impossible to delay any longer the completion of Lord Wellesley's policy. There followed the Pindari War and the third Mahratta War which brought about the comprehensive settlement of Central India and Rajputana, the final disappearance of the Peshwa, the defeat of Holkar and the Bhonsla Raja, the surrender of much of their territory, and an important new treaty with Scindia. The purpose of the numerous treaties made at this time with the States of Rajputana and Central India was to give to all of them peace and stability in return for their "subordinate co-operation" with the Paramount Power. The political domination of the Mahratta States over the ancient Rajput principalities was thus brought to an end. Emblems of it remain, however, to this day in the inter-State tributes for the collection of which responsibility was assumed by the British Government, since it was a cardinal feature of the Governor-General's policy that States should be isolated from each other, their foreign relations being retained entirely in the hands of the Paramount Power.

27. A similar process of pacification and rescue from anarchy and oppression had also taken place on the northern frontier as a consequence of the incursions of the Nepalese. On the conclusion of the Nepal war in 1816 numerous small States which had been over-run by the Gurkhas were resuscitated and brought within the sphere of British Paramountcy. In fact, by 1818 no State in India, with the exception of the Sikh principality established by the great Ranjit Singh in the Punjab, could claim independence. The



Sikhs had not been free from the incursions of the Mahrattas and had been forced to pay tribute in 1802, but when Mahratta power in Upper India was broken by the British, Ranjit Singh reigned undisturbed, though sternly prevented from extending his conquests south of the river Sutlej. It was not until after his death in 1839 that the Sikhs defied this prohibition and embarked on an aggressive policy. In the first Sikh War (1845-46) they lost a large portion of their territory, part of which was made over to the Raja of Jammu, thus constituting the important modern State of Jammu and Kashmir. The second Sikh War (1848-49) extinguished the dynasty of Ranjit Singh and transferred to British suzerainty all the States of the Punjab.

28. Within a few years there occurred the Mutiny of 1857, when the success of British arms, with the loyal co-operation of numerous Indian Rulers, effected the consummation of all for which Lord Wellesley and Lord Hastings had striven. "The Crown of England", wrote Lord Canning, "stands forth the unquestioned ruler and paramount power in all India is for the first time brought face to face with its feudatories. There is a reality in the suzerainty of England which has never existed before and which is not only felt but eagerly acknowledged by the Chiefs."

#### **Subsequent economic developments.**

29. In the years which followed the Mutiny this new unity of India under the Crown began to assume an economic as well as a political complexion. Enjoying the blessings of peace after centuries of warfare and dissensions, of the last stage of which so vivid and harrowing a picture is given by contemporary writers such as Malcolm, Tod and Sleeman, India rapidly progressed and developed. When the co-operation of the States was required in the interests of all India it was freely and ungrudgingly given. They made free grants of land for the development of India's great railway system, which in 1858 comprised but a few hundred miles, and now extends to over forty thousand. Over these lands they ceded civil and criminal jurisdiction in order that the development of trade and communication might not be hampered by a multiplicity of authorities. Co-operation was also forthcoming for the construction of roads and irrigation canals. Many of the States which possessed local currencies and postal systems agreed to abolish them so that their subjects might participate fully in the benefits arising from a central administration of these great public services. Similar progress was made in the removal of the barriers imposed on trade by a multiplicity of fiscal systems. Practically every State in India had from time immemorial levied transit duties on goods passing through its territories. The growth of the railway system was inimical to this form of taxation and the Princes of India, realizing its incompatibility with modern conditions, agreed to its extinction. Some Rulers further agreed to abolish export and import duties, though the majority of Indian States still depend largely on revenues from this source.

30. Steps were also taken between 1863-66 to advance the freedom of India's coastal trade. Previously the ports of all Indian States



had been treated for customs purposes as foreign, and goods arriving therefrom at Bombay or any other British Indian harbour for shipment to Europe had been subjected to import duties, exports from British India being similarly taxed by the States. Arrangements to remove these impediments to trade were made in 1865-66 with certain of the maritime States. In subsequent years this process was further continued until the British Indian sea customs tariff has been adopted by every maritime State in India with the solitary exception of Cutch. Another development of great importance was the series of salt agreements concluded during the Viceroyalty of Lord Lytton (1876-1880) with numerous States in Rajputana and in Central and Western India. Most of the great salt sources of India are situated in Indian States, and it was essential to secure their co-operation in order to arrange a diminution in the cost of production and transport as well as a more up-to-date and businesslike system for the collection of the salt tax, which has always been one of the mainstays of Indian finance. In these arrangements the co-operation of the States was forthcoming on terms which, though occasionally resented as doing less than justice to individual interests, have proved to be of material benefit to India as a whole.

31. It will be apparent from the above that the States are closely identified with numerous branches of all-India activity, and that this process had already gone far even before the emergence of the federal ideal. To a great extent indeed Railways, Currency and Coinage, Posts and Telegraphs and Salt are already "federal subjects." The all-India services of public utility function in the States as well as in British India, and taxation through sea customs and the salt tax is largely of all-India incidence. Every State co-operates fully in measures considered necessary for the defence and tranquillity of the country, and many maintain troops intended for the reinforcement of His Majesty's Army in times of emergency.

#### **Need for association of the States with determination of policy.**

32. But in one vital respect present arrangements fall far short of the ideal. It has already been shown how in 1818 the States, accepting British suzerainty, came to occupy a position of subordinate isolation. Later in the nineteenth century India attained a higher degree of unity under the Paramountcy of the Crown, but the States remain without means of guiding or even of effectively influencing policy at the headquarters of Government in regard to many matters in which they have a very direct and material interest. In recent years, when a measure of autonomy has been vouchsafed to British India, it has become less easy for the Crown to discharge its responsibilities as trustee for all the conflicting interests under its suzerainty or rule, and it would be rash to affirm that the point of view of the States equally with that of British India has always been in the minds of those who have shaped India's economic policy. It is in our view inevitable that, in the process of transferring further responsibility in such matters to Indian hands, provision should be made for the due participation of the States.

## CHAPTER III.

## CASH CONTRIBUTIONS.

## Introductory.

33. In the preceding Chapter some account has been given of the events which brought the East India Company into political relations with the Indian States and led to the establishment of the British as the dominant power in India. The fall of the Moghul Empire and the break-up of the Mahratta Confederacy left the Company in a position of undisputed supremacy in the centre and south of India. The Gurkha, Sind and Sikh wars extended their authority and consolidated their position in the north and north-west. These and earlier wars and the diplomatic happenings which led to or followed on them resulted in very diverse relations with the Rulers of the States involved. Policy, too, changed from time to time, moving from the earlier phase of "non-intervention" in State affairs to that of "subordinate isolation" and "subordinate co-operation" and, later, to "union and co-operation" with the Paramount Power.

34. In the historical and treaty relations of the States with the British must be sought the origin of the cash contributions with which this Chapter is concerned. It must be premised that its scope is limited to that type of cash contribution commonly, though not now officially, known as tribute, a term of which the use on occasions will make for brevity and, indeed, is inevitable in the present connexion. We refer in Chapter V to certain other payments by the States which cannot be classed as tribute.

35. While the first extant treaty with an Indian State dates from 1730, and treaty relations therefore extend over a period of more than two centuries, tributary relations and cash contributions had a later beginning, but nevertheless have a history of over 150 years. In the early days of the East India Company reciprocal alliances, necessary for trade protection, were all that were aimed at, or permitted by, the policy of the Board of Directors and the British Government. With the later developments of the protection and the subordination of States came the system of tributes and of ceded territories, the latter being discussed in Chapter IV of this Report.

36. We have been directed to review the origin and purpose of all cash contributions. There is, however, one preliminary matter on which we think it right to say few words. Before the Butler Committee the States demanded that without their own agreement the rights and obligations of the Paramount Power should not be assigned to persons who are not under its control, as, for instance, an Indian Government in British India responsible to an Indian Legislature; and the Committee in the final paragraph of their

Report held "that the treaties, engagements and sanads have been made with the Crown, and that the relationship between the Paramount Power and the Princes should not be transferred, without the agreement of the latter, to a new Government in British India responsible to an Indian Legislature."

37. We accept and adopt the principle embodied in this statement, which, indeed, is implicit in the declaration made by the Prime Minister on the 19th January, 1931, at the concluding session of the first Round Table Conference. It appears to us that the principle applies equally to the case of a Federal Government as to that of a responsible British Indian Government, and it follows that the tributes with which we are now concerned will, even after Federation, continue to be payable to the Paramount Power unless the Rulers who are under an obligation to pay them otherwise agree, and that the right to receive them will not pass as of course to the Federal Government. They are not, therefore, as they seem to have been treated by the Federal Finance Sub-Committee (see Appendix I, paras. 16—18), *in pari materia* with the contributions of British Indian provinces, though we do not for a moment suggest that the Paramount Power is not entitled to place them at the disposal of the Federal Government or to deal with them as it may think fit.

38. Nor have we any reason to suppose that the States themselves, if the Paramount Power in fact placed these contributions at the disposal of the Federal Government, would regard this as implying that the Paramount Power had assigned to another authority any of the rights and obligations which it exercises or has undertaken to fulfil in relation to the Indian States.

39. It was proposed by the Federal Finance Sub-Committee that the exceptional contributions (as distinguished from contributions common to all units of the Federation alike, such as the proceeds of indirect taxation levied by the Federal Government), which the provinces of British India must for some time inevitably continue to make to the federal revenues, should take the form of a surrender of a part of the proceeds of income tax collected on their behalf by the federal authorities. A contribution in the form of a part of income tax receipts is obviously very different from a contribution made, as the tributes are, not in virtue of a taxing act passed by the representatives of the people to be taxed, but in virtue of agreements or treaties made between the tribute-paying States and the Paramount Power. On the other hand, the tributes are the only cash contributions which, though indirectly, the States will be making in aid of federal revenues, and, in spite of the essential difference between this contribution and that of the provinces, it is not unreasonable, so long as the difference is clearly borne in mind, to regard the one as *pro tanto* counterbalancing the other, or to look forward to the extinction or reduction of the one *pari passu* with the extinction or reduction of the other. Certain analogous questions which arise in connexion with ceded territories are discussed in Chapter IV.

### Classification of cash contributions.

40. Cash contributions falling within the scope of this Chapter have been dealt with individually in Appendix III to our Report, where each such contribution has been classified and brief particulars of its history and origin have been given. In the task of tabulation we have been assisted by the list given in Table XV appended to the first report of the Special Committee referred to in Chapter II. The numbers of the contributions and their varied origin have necessarily made the statement in the Appendix a lengthy one, and it must suffice here to give some general account of their main classes with examples of each, and to state and explain the principles which we have applied in arriving at our conclusions regarding them.

41. The contributions fall into two categories, the first comprising all tributes imposed or negotiated directly by British authority, the second, those transferred by or inherited from previous suzerain powers or overlords.

42. Of the first category five main classes, which are detailed below, can be distinguished.

(1) Contributions in acknowledgment of suzerainty, very commonly imposed by treaties embodying an obligation to aid or protect on the one side and to give subordinate co-operation on the other.

(2) Contributions in commutation of obligations for the provision of a State "contingent force" or other form of military assistance.

(3) Contributions for the maintenance of a British "subsidiary force."

(4) Contributions fixed on the creation or restoration of a State or on a regrant or increase of territory (including annual payments for grants of land on perpetual tenure and for equalization of the value of exchanged territories).

(5) Contributions for special or local purposes such as the maintenance of local corps, police, etc.

43. Of the second category, viz., those transferred by or inherited from previous suzerain powers or overlords, it seems only necessary to distinguish two classes:—

(6) Contributions acquired by the conquest or lapse of the original recipient State;

(7) Contributions acquired by treaty.

44. It will be evident from the details given in Appendix III that the seven classes defined above are not mutually exclusive, and that many of the tributes cannot be ascribed to one origin or purpose only. Subordination or acknowledgment of suzerainty, restoration or grant of territory and guarantees of protection or the provision



of specific forces are often combined in varying permutations, and it is in a number of cases impossible to assign the origin of tribute to any one factor or to resolve into its elements a payment arising from several joint factors. Fortunately, however, these considerations raise little practical difficulty in the discharge of the task entrusted to us. In what follows we attempt to describe and illustrate these classes more fully, indicating each by the number assigned to it above.

### **Tributes directly imposed or negotiated (Appendix III, Schedule A).**

45. Class (1) comprises the simplest and most typical form of tribute, that is to say, tributes fixed as a recognition of British suzerainty and of the acceptance by the State of the obligation of subordinate co-operation; sometimes, also, as a contribution towards the cost of protection assured in terms or implied. The treaties of 1818 with the Rajputana States of Jaipur and Udaipur furnish illustrations of this class of contribution. By these treaties protection was guaranteed to the States in question, and they, on their side, acknowledged the supremacy of the British Government and agreed to act in subordinate co-operation with, and to pay tribute to, that Government.

46. An outstanding case is that of the important State of Mysore. Three wars with the aggressive and formidable Sultans, Haidar Ali and Tipu, who had usurped the powers of the original Hindu dynasty, ended in the complete defeat and the death of Tipu in 1799. The original dynasty was restored, and the State re-constituted after its conquest; and a subsidiary force was established for the defence and security of the Maharaja's dominions. In consideration of this protection he agreed to pay to the East India Company a subsidy of the value of Rs. 24½ lakhs a year. By the Instrument of Transfer of 1818, restoring the management of the State to the then representative of the dynasty, the British Government undertook to defend and protect his territories, the Maharaja, on the other hand, promising allegiance and subordination to the Crown. In many other cases the arrangements only amounted to the transfer of liabilities, previously admitted or established, towards former overlords, e.g., the Peshwa or the Bhonsla Raja of Nagpur. Contributions with this origin, though of the nature of those included in the present class, fall properly within the category of acquired tributes, which have been separately tabulated under classes (6) and (7).

47. Class (2) comprises those cases in which an obligation to supply troops for the common defence or in support of an alliance between the State and the British Government has been commuted for cash. The State of Bhopal furnishes a good example of this type of case. This State, by a treaty of 1818, was guaranteed protection and undertook to provide a contingent of 600 horse and 400 foot, a liability which, in 1849, was commuted for an annual payment of Rs. 1,61,290, the present cash contribution of the State. Indore (whose contribution was capitalised in 1865), Jaora and Dewas Senior and Junior furnish instances of contributions similar in origin.



48. Class (3) is related to the second in that the tributes which it comprises also had a military origin ; but in these cases the tribute was fixed to cover the cost of a "subsidiary force" maintained for the protection of the State by the British Government. Travancore, Cochin and Gwalior supply instances of such payments for the maintenance of subsidiary forces. (In the case of Gwalior the payment is made, not from the resources of the territories ruled over by Scindia, but by an assignment of tributes due to this Ruler from States in various parts of Central India and dating from the days of Mahratta supremacy. These contributions will therefore be found in the class of those acquired by treaty from another power.)

49. Class (4) comprises cases where cash contributions are paid by States which have been created, restored or enlarged by the British Government. One of the earliest cases is that of Cooch-Bihar, whose Raja agreed in 1774, as the price of delivery from Bhutan, to pay half the annual revenues of his State for ever to the British Government. This obligation was commuted in 1780 for a fixed annual payment of Rs. 67,700, the amount of the present contribution. Benares affords a modern instance. On its creation, or rather re-establishment, in 1911 the State undertook to pay a cash contribution calculated on the basis of the loss of revenue involved in making over the sovereignty of the territory to the Maharaja. The tributes of the Simla Hill States date in general from 1815, when these States were rescued from the Gurkhas and re-established at the end of the Gurkha War. In ten out of fourteen cases the tributes are fixed as commutation of liabilities for the supply of *begar*, i.e., carriers to be provided by the State for military transport.

50. There are also a considerable number of cases in which States pay tribute in respect of certain portions of their territory, originating in the fact that their title to the districts in question was in some doubt or was asserted only by means of British support. Ajaigarh in the Central India Agency, for example, pays an annual tribute of Rs. 7,014 for two districts granted to the State after its restoration in 1803. The cases of Charkhari and Panna are almost identical with that of Ajaigarh, while Bihat affords an instance of a payment where a title was in doubt. Bhavnagar, in Kathiawar, makes a payment of Rs. 52,000, fixed in 1860. for certain villages in which that State had been tacitly allowed to exercise sovereign rights after their cession by the Peshwa to the British Government in 1802.

51. A cognate group of cases is that of States having their origin in jagir grants, i.e., grants of revenue only, of which the Satara Jagirdars supply examples. These States originated in such grants, from the local Muhammadan kings of Bijapur, the Moghul Emperors, or the Mahrattas. Whether made as grants of land or of land revenue, they carried with them in the unsettled times of their origin a territorial jurisdiction, which developed in course of time into territorial sovereignty, as the granting power decayed or disappeared or as the grantee otherwise established independent authority.

52. The Southern Mahratta States and their contributions afford perhaps a closer parallel than any other to a strictly feudal relationship. Most of these States originated in grants of land made by the Peshwa to the founder of the Patwardhan family, the condition of the latter's tenure being an obligation to render military service. The grants were later divided between the heads of the various branches of the family and the military obligations distributed accordingly, each branch having to furnish a specified number of horsemen. On the overthrow of the Peshwa an option was given to the Patwardhans to commute their obligations either for cash or by the surrender of land of an equivalent annual value. The senior State, Sangli, ceded territory and certain rights to revenue; the others elected to furnish contingents, but later, in 1848-9, commuted their obligations for fixed but light money payments, which continue to the present day. [While in origin the tributes of both the Satara and the Southern Mahratta States are closely related to those of the present class, their acquisition through the defeat of the Peshwa brings them into Class (6)—tributes acquired by conquest—in which they have accordingly been tabulated.]

53. Class (5) comprises contributions made for some special or local purpose. Appendix III shows that most of these payments are made towards the cost of two local corps, the Malwa Bhil Corps and the Mina Corps, stationed in Central India and Rajputana respectively. The State of Kotah makes the largest of the payments, Rs. 2 lakhs, which it contributes towards the cost of the latter corps. For this also the Jodhpur State pays Rs. 1,15,000 annually. The payments are relics of stormy periods in the histories of the States concerned, which have long contended that these burdens should not continue under modern conditions.

54. The Kolhapur State also makes certain special payments for the upkeep of the Kolhapur Infantry, a body of troops maintained under the command of the Resident for the time being, and also for the expenses of the Agency, including part of the pay of the Resident and his establishment. The assignment originated in an agreement of 1862 when the powers of the Ruler were restored, but at a time when the Resident was still in some degree responsible for the administration of the State. The amounts retained from the tributes due by other States to Baroda but assigned and used for the police of the areas from which they are drawn may also be classed in this category.

#### **Tributes acquired by conquest, lapse or assignment.**

#### **(Appendix III, Schedule B.)**

55. This concludes our review of the five classes of the first category of tributes; there remain the two classes of the second category, viz., those acquired from previous suzerains, overlords or powers who exacted tributes *de facto* or *de jure*. It will be evident from what follows that these transferred liabilities are mostly of the same nature as the tributes of Class (1) of the direct tributes.

56. Class (6) comprises tributes which accrued to the British Government in India on the conquest or lapse of the State which originally received them. It is by far the largest of the classes, as in it are included the tributes paid by two great groups of States, one in Kathiawar, the other in Bihar and Orissa and the Central Provinces.

57. The former group numbers 31 and its tributes range from the Rs. 50,312 and Rs. 50,262, paid by Nawanagar and Jethpur respectively, down to petty amounts such as the sum of Rs. 153, which is the contribution of Bhavnagar under this particular head. A full account of this important group will be found in Appendix III. In the latter part of the 18th century the Mahrattas had established their supremacy in Gujerat and Kathiawar, and were levying tribute on States in both areas. Their hold, especially over the more distant States, was intermittent and the tributes which they exacted were levied under pressure of periodical invasions and were undefined in amount. By British intervention they were fixed in 1806, after the well-known "Walker settlement," and since 1820 all have been collected through British agency. Both the Peshwa and the Gaekwar levied tributes on States in this area. Those with which we are here concerned belonged to and were acquired from the Peshwa, first by treaty in 1817 among cessions in commutation for a contingent force, and, finally, in 1818, on his defeat and downfall, as part of his possessions acquired by conquest. With these Kathiawar tributes are classed some five tributary payments made by Cambay and other Gujerat States in the Bombay Presidency which have a similar origin.

58. The second large group comprises 37 tribute-paying States situated in the province of Bihar and Orissa and in the Central Provinces. These States were formerly tributary to the Bhonsla Raja of Nagpur, one of the members of the Mahratta Confederacy, whose State after many vicissitudes finally lapsed in 1855. Seventeen of the States pay fixed tributes. These were transferred from the suzerainty of Nagpur by treaty in 1803. The rest accrued to the British Government at a later date and are of a fluctuating nature and liable to periodical revision. The basis on which they were fixed has varied at different times, but at the last revision in 1907-8 they were assessed on a consideration of the balance of revenue remaining after deduction of the cost of administration and a sum adjudged sufficient for the due maintenance of the Ruler. The largest amounts are Rs. 80,000 paid by each of the States of Khairagarh and Nandgaon. Of the fixed tributes only two, those of Nayagarh and Dhenkanal, exceed Rs. 5,000. They pay Rs. 5,525 and Rs. 5,099 respectively.

59. There are also in this category two smaller groups of Bombay States which have been already referred to—the Southern Mahratta States and the Satara Jagirdar group—who make cash contributions of substantial amount in commutation of obligations to furnish mounted contingents, and a few other individual cases.

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60. Class (7) comprises the tributes assigned to the British Government by the Mahratta States of Baroda, Gwalior, Indore and Dhar. With few exceptions these assignments were made as part of payments for subsidiary forces or contingents and were accompaniments of territorial cessions which are fully detailed and discussed in the Supplementary Report of the Special Committee and in the next Chapter of this Report. Among the exceptions are the two tributes assigned by the State of Dhar from Banswara and Dungarpur. These were made over in 1818, when the State was taken under British protection, in return for the recovery of lost districts.

#### **Recommendations in case of tributes directly imposed or negotiated.**

61. We have now, in accordance with our Terms of Reference, reviewed the origin and purpose of these cash contributions, and we proceed to the second part of our duty. Our Terms of Reference require us to advise "whether they (*i.e.*, cash contributions) should be immediately reduced or eventually extinguished in the manner contemplated in paragraph 18 of the Report of the Federal Finance Sub-Committee, or must be regarded as outside the scope of that recommendation as being for special and local purposes or by way of payment for material assets such as land still in the possession of the contributing States."

62. In paragraph 18 cited above, the Sub-Committee says:—"We think that there is, generally speaking, no place for contributions of a feudal nature under the new Federal Constitution; and only the probability of a lack of Federal resources at the outset prevents our recommending their immediate abolition. We definitely propose that they should be wiped out *pari passu* with the Provincial Contributions discussed in paragraph 16 above. Meanwhile, there seems to us to be certain cases in which real hardship is inflicted by the relative magnitude of the burden of the cash contributions; and we suggest that it might be possible, without excessive loss being thrown on the Federal Government, to remit at once that part of any contribution which is in excess of five per cent. of the total revenues of a State."

63. The supposed feudal nature of the contributions, referred to in the above extract, has been stressed in earlier discussions on the subject. In our opinion the feudal analogy is often very remote and affords no safe criterion for determining the legitimacy or otherwise of the claim for remission of tributes. Only some of these contributions, such as those which represent the commutation of an obligation to render military service, can properly be held to be of a feudal origin or nature. Many of them have no analogy in the feudal system as ordinarily understood, and others, paid under an agreement or treaty to the Paramount Power for military forces to be provided or for services to be rendered by the latter, are obviously in important respects in direct contrast to feudalism.

64. The fundamental and equitable principle that contributions to federal resources should be on a uniform basis seems to us to afford safer ground for an approach to the problem of remission than does any argument founded on feudal analogies. The cash



contributions in general contravene this fundamental principle. It is not that there is anything in cash contributions as such inconsistent with the federal idea, and some States have themselves suggested that their contributions to the federal fisc should take this form. The present tributes, however, not only have no counterpart in British Indian provinces apart from income tax, the abolition of which as a federal source of revenue is proposed, but they are both arbitrary and unequal in their incidence on individual States. If they were not so it would be quite possible, and perhaps desirable, to consider their retention as a part of the federal financial system. Many States moreover pay no tributes at all ; and the distinctions which exist between one State and another in this respect, as well as in respect of the amount of tribute paid, are largely the result of a series of historical accidents and depend on the circumstances in which the relations of the State and the British Government were stabilised or of the exigencies of the time or the policy which then prevailed. Contributions to the Paramount Power by some of the States under its suzerainty may no doubt have had a historical justification ; but, as between the members of a Federation, such payments by some units for the benefit of all have no logical basis. Apart altogether, therefore, from any objections based on feudal relationships, the States now paying tributes can and do justly urge that no unit on entry into Federation should remain burdened by these exceptional contributions, in addition to the contribution which it makes through the incidence of indirect taxation common to all alike.

65. It is true, as we have shown, that in certain cases tributes represent a payment in return for rescue by the Paramount Power from complete extinction, for restoration after expropriation, or for additions of territory. This class of tribute as well as that of tributes for special or local purposes we reserve for consideration below ; but, as regards tributes in general, we are in full agreement with the conclusions of the Federal Finance Sub-Committee that there is no place for them in a federal constitution and that with Federation they should be brought to an end. We would apply this conclusion to all tributes comprised in classes (1), (2) and (3) above, whether they originated in acknowledgments of suzerainty and obligations of subordinate co-operation, in contributions for general protection, in commutation of obligations for the supply of troops, or in payments for subsidiary forces.

#### **Contributions represented by "Material Assets."**

66. There are cases where, apparently or in fact, a consideration has been or is being received in respect of the contribution, and we have been asked and have now to distinguish such cases where, owing to the transfer of material assets such as land still in possession of the contributing State, or to the contributions being for special or local purposes, the recommendation of the Federal Finance Sub-Committee for the immediate reduction or final extinction of the payments should not apply.

67. We have found some difficulty in interpreting the phrase "material assets such as land." but believe that we must consider



here our fourth class of the first group, in which contributions are classified as paid in respect of the creation of a State or of the restoration, regrant or enhancement of its territory. The word "land" is in one sense ambiguous; but it is reasonable to assume that the Sub-Committee had in mind private as distinguished from public or sovereign rights. We have received and tabulated no claims for the remission of payments made in respect of "lands," where the recognition of sovereignty did not, either expressly or by necessary implication, accompany the grant, or where the payments have not in course of time been followed by a tacit recognition of sovereignty. It is true that now and then there is little in the terms used in the treaty or grant to distinguish the case from a grant of jagirs or of revenue only, but sovereign powers appear to have been exercised even in these cases from the beginning. A typical instance is afforded by the tribute of Ajaigarh of which some account has already been given. When the two additional districts were granted to the State at the beginning of the last century the terms used were appropriate to the creation of a perpetual lease, but, though in 1812 these districts were not included in a list of the territories then constituting the State, it would appear that they have in practice always or long been treated as part of the territory belonging to the State and in no way differently from its other territorial possessions except for the payment of the fixed annual sums. The cases of Panna and Charkhari are practically identical with that of Ajaigarh.

68. It might possibly be held that the tribute paid in such cases is payment for material assets still in the possession of the State. We feel, however, that it is difficult to distinguish these tributes or to treat them differently from those imposed on the many States restored in whole after a usurpation and handed over on condition of the payment of an annual sum by way of tribute and not of rent, or from those of States originally created by way of jagir grants but afterwards recognised as sovereign States at, or subsequently to, the beginning of their connexion with the Paramount Power, in both of which cases we hold that the tributes are clearly such as should rank for remission.

69. In the first case, the difference has been one of words and not of facts, since sovereignty has been exercised by both groups of States in the whole of their territories, whether the contribution has taken the form of a tribute or a payment for a perpetual lease. In the second, the same considerations apply to the payments made by the jagir States for the whole of their territories as to those made by the States now in question for additional districts. In the case of all, the justification for remission is that such payments contravene the principle of equality of contribution and that their Rulers have the same expenses and burdens of administration as those of other States and equally require their revenues to meet public needs. While this applies to all districts, even though of jagir origin, in which Rulers exercise the same sovereign powers as in the rest of their territories, it does not apply to districts in British Indian territory held by States or their Rulers as private landowners, where the responsibility and cost of public administration falls on British India alone.

70. A difficult and crucial case is that of the State of Benares, which was re-created in 1911 after a long period of extinction, subject to payment of an annual tribute, revised in 1919 on the transfer to it of additional territories, and since then fixed at Rs. 2½ lakhs approximately, this amount representing the equivalent of the revenue lost to Government by the transfer of the territories comprised in the re-created State. It may be thought that a transaction of such recent date ought not now to be revised to the exclusive advantage of one of the parties to the bargain; yet only by remission of the tribute can Benares or other States similarly situated be brought into Federation on a footing of equality and on an equitable financial basis, and the date on which the tribute first became payable is not really relevant. There is little doubt that the districts transferred to Benares, if in the hands of the United Provinces to-day, would not yield the surplus estimated in 1911 or 1919, when the economic conditions and the cost of provincial administration were very different from what they are now. There seems also little reason for distinguishing between a State which has agreed to pay an arbitrary sum as a condition of its creation, existence, or preservation, and the case of Benares, where a figure based on the revenue of the State has been fixed on its restoration to a previous Ruling House. In the one, as in the other, the contributions are obligations determined by treaty or agreement, and in both the considerations arising on Federation are the same.

71. These examples will perhaps have sufficiently illustrated the problem presented by Class (4) and the principles on which we believe it should be dealt with. We do not consider that a State itself, or a part of it, should be held to be "material assets" for the present purpose, and would advocate that, if the principle is accepted that tributes are ultimately to disappear, it should be applied broadly. We have carefully scrutinised the cases included in Class (4) and hold that no question arises of "material assets" in a sense which would justify us in excluding them from tributes which in our opinion should be extinguished. We accordingly recommend them for the same treatment as recommended for those in our first three classes.

#### Contributions made for "Special and Local Purposes."

72. The payments "for special and local purposes" are in most cases for local corps, in which we include the Kolhapur Infantry. These forces have been referred to already and are fully described in Appendix III. The States liable for the payments for them demand the cessation of their contributions on the grounds that the corps are no longer required, or that they are themselves ready and able to provide forces of their own and to discharge the duties for which the corps were raised. They allege, also, in certain cases that the forces for which they contribute are neither recruited, stationed nor used in the territories.

73. We have not been in a position nor have we had the time to investigate the validity of these contentions, but we have been impressed by the force of the argument which *prima facie* they

present. It appears to us that where a State contributes for a force which is required for purposes which lie outside its responsibility and borders, its contribution should be classed for remission ; only where and so far as the contribution represents the due share of the State in the maintenance of a force for its own or for joint needs which it is unable or unwilling to supply should its contribution be held to be for value received and payable even under Federation. We recommend that the problem of these contributions be examined and dealt with by the Government of India on these principles, but we have provisionally treated them as ranking for remission. The examination might also include the case of the Mewar Bhil Corps.

74. Another case of a contribution made for a special or local purpose is the sum of Rs. 3½ lakhs due from the State of Baroda and adjusted by deduction from the tributes collected by the British Government on behalf of the Ruler of that State from certain States and Estates known as the Tributary Mahals in Kathiawar and the Rewa Kantha and Mahi Kantha Agencies. The sum was fixed by treaty in 1881 in commutation of the services of a contingent of 3,000 horse which, originally raised as irregular cavalry, had in course of time come to be used for policing the Mahals paying the tributes. The treaty provided that the duties carried out by the contingent in the Mahals " should be in future performed by a body of mounted and foot police, entirely under the management and command of the British Government," and for the annual payment of the sum referred to above in consideration of which the obligation to maintain the contingent was terminated.

75. The payment is appropriated in aid of the cost of the police who have succeeded, and carry out the duties of, the contingent. The assigned amount of the tributes was thus made over and is utilised for the benefit of the tributary areas and, in our opinion, constitutes a genuine case of a contribution for a special and local purpose, for the abolition of which no adequate reason can be shown.

#### **Recommendations for Tributes acquired by conquest, lapse or assignment.**

76. The principles to be applied to the first division of the group of acquired tributes, *viz.*, those obtained through the conquest or lapse of the State which originally received them, do not require very lengthy treatment. In the large group of the States of Western India and Gujerat, and in that of the Central India and Bihar and Orissa States, the payments are of the same nature as those of Class (1) above and arise from the transfer to the British Government of the allegiance or subordination which they acknowledged to their previous overlords together with the payments which accompanied it. In two smaller groups of cases the payments are in commutation of obligations of military service, originating in jagir grants out of which States are developed which have long been recognised as possessing sovereign powers. In no case do we consider that these payments are in consideration of any material assets which would justify a claim to the retention of the payments under Federation or that they are used for any special or local purpose. We therefore hold that they should clearly rank for remission.

77. The second class of acquired tributes, which comprises those obtained by treaty, raises one of the most difficult problems with which we have been confronted. In many cases States are, or were, under obligations to make cash payments to other States, and the present class is made up of cases where these inter-State tributes have been assigned to the British Government. The main cessions were made by Rajput and Kathi States to Baroda and Gwalior, and were assigned to the British Government in return for subsidiary forces, by the former under various treaties in the early part of the nineteenth century, by the latter under a treaty of 1844 modified in 1860. These assignments formed part of much larger transactions, by which extensive and valuable territories were also ceded by these States, a full account of which will be found in Chapter IV.

78. If such assigned tributes are remitted for the benefit of the States which have made them over to the British Government, they immediately revert to the general category of direct inter-State tributes. We have, therefore, found it necessary to give some consideration to these, especially as their existence raises important issues in connexion with the future financial relations between units of the Federation.

#### **Inter-State Tributes in general.**

79. The Round Table Conference, when it recommended that tributes be extinguished as early as possible, did not perhaps recall that, in addition to those paid to the British Government, there are also tributes paid by one State to another. The inter-State tributes include those paid direct by one State to another, those collected by and paid through the British Government, and those assigned to the British Government. Such payments whether retained or assigned are inconsistent with the idea of a Federation of equal units, and contravene the principle of equality of burden. At the same time we are bound to admit that we have seen no disposition on the part of the creditor States to surrender them, and indeed, certain States deprecate their remission as likely to prejudice in some degree their own claims to a superiority of status, if not to a kind of suzerainty, over the States which are their debtors, and even desire a re-assignment of the tributes to themselves as a support and acknowledgment of such claims. This appears to us to indicate an attitude of mind wholly alien to the Federal idea, but the attitude none the less exists, and must be recognised.

80. We have no mandate to deal with those inter-State tributes which have not been assigned to the British Government, whether they are paid direct from one State to another or through the British Government. But, to illustrate the extent and importance of the problem and in view of its connexion with the assigned tributes, those cases which have come to our notice have been shown in Appendix IV side by side with the summarised table of payments made to the British Government.

81. Whether or not these payments are to be regarded as incompatible with the relationship between States who are members of a federation, we can, for our own part, only record a hope that a



generous policy on the part of the creditor States will ensure that the payments disappear along with those due to the British Government. If the acknowledgment of status is considered of more importance than the payments themselves, we may observe that in circumstances of this kind the tender of some formal token is a well-established practice in India, and might reasonably be substituted for the payment in cash.

**Inter-State Tributes assigned to meet obligations for cash contributions.**

82. Our real difficulty, however, is the treatment of the tributes assigned in lieu of cash payments. To cancel these assignments, and thus return the right of receiving the tributes to the States which have made them over, is no help towards Federation, nor, especially, to the establishment of an equitable system of federal finance. Nevertheless, this is the course which we feel constrained to recommend. There are three alternative methods of dealing with these cases.

The first of these is to excuse the tribute-paying State (*e.g.*, Ratlam), and at the same time to give credit for the amount of tribute to the State (*e.g.*, Gwalior) which assigned it. This involves not only the loss of the tribute but the payment of compensation for it, would be manifestly unfair to federal revenues.

The second is to remit the tribute without reference to its history and to give no credit for its assignment. This policy is, in our opinion, impossible so long as inter-State tributes in general are not extinguished. Suppose, for example, the Rutlam tribute had not been assigned by Gwalior, but an equal direct cash tribute had been imposed. The levy from Rutlam would still continue along with other inter-State payments even if the British tribute were remitted. To remit without credit or re-imbursement to Gwalior is to be generous at the latter's expense.

The third is to hold that, until the States generally agree to remit inter-State tributes, the fact that an inter-State tribute has been assigned to the Paramount Power and that the latter is willing to relinquish its own interest in it, ought not to affect the position as between the State which pays the tribute and the State which has transferred to the Paramount Power its right to receive it. In that event the tribute would continue in existence, and, after the Paramount Power has relinquished its interest in it, the right to receive it would revert to the State by whom it was previously assigned.



part payment of a subsidiary force. Jodhpur has been paying only Rs. 98,000 to the Paramount Power, as a reduction of Rs. 10,000 has been allowed in respect of the claims of Jodhpur to Umarnot. With the merits of the matter we are not concerned, but on the assumption that this adjustment continues to be made our recommendations involve in effect the annual payment of Rs. 1,08,000 by Jodhpur to Gwalior, either direct or through the medium of the Paramount Power, and the payment of Rs. 10,000 by the latter to Jodhpur.

### Special Cases.

84. Mention may appropriately be made here of some cases which present peculiar features. The first is that of the fluctuating tributes. The fact that they are subject to revision does not affect the principles applicable, and they fall for treatment on the lines determined for tributes in general. It is obvious that the system of revision is inconsistent with the adoption of the principle of reduction and ultimate extinction, and we recommend that the present figures of fluctuating tributes should be accepted as the basis of any scheme of reduction and extinction.

85. In certain cases tributes have been suspended or reduced for a term subject to conditions. Such is the case in Manipur, where the fixed amount of Rs. 50,000 imposed on the regrant of the State after the outbreak of 1891 has been reduced to Rs. 5,000 for the twelve years ending 1932-33 on condition that the balance of Rs. 45,000 is spent on the improvement of the administration of the hill areas of the State. In the case of Kapurthala the annual payment of Rs. 1,31,000 due from the State has been remitted on conditions relating to the cost and efficiency of its State Forces.

If no concessions had already been made, these contributions would be included in the scheme for remission along with others in the groups to which they belong, and we recommend that if and when tributes in general are extinguished the conditions attached to these particular tributes should simultaneously disappear; but we consider that Manipur is a case in which the Paramount Power is fully justified in insisting on the maintenance of law and order, and the improvement of the administration, in the hill tracts as a corollary to the cancellation of the condition at present attached to the Manipur tribute.

**Recommendations both for immediate and for final relief.**

87. The preceding survey of the whole problem has shown the payments which we hold to be made "for special or local purposes or for material assets such as land still in the possession of the contributing States. It will be seen that in our opinion cases where special or local purposes justify exceptional treatment are few, and that some of these, where local corps are maintained, require further examination. We have also shown in Appendix III the cases where payments are made in respect of territory held by States, and have indicated that we consider that territory, as distinguished from land held as private property or a mere source of income and not in sovereignty, should not be treated as a material asset for present purposes.

88. As regards tributes in general we have to advise as to their immediate reduction or eventual extinction on the lines recommended by the Federal Finance Sub-Committee. We have no hesitation in supporting the proposal of the Sub-Committee that the sum by which any contribution is in excess of five per cent. of the total revenues of the State should be at once remitted. Our recommendations in general assume and are based on the accomplishment of Federation, but we believe that the intention was that we should be at liberty to advise, if we found it desirable, that this step should be taken without delay. The inequality of the payments is so marked, and in some cases their burden so heavy, rising in one case to as much as 40 per cent. of the revenues of the State, that we hold that the relief should be immediate. We would recommend for similar treatment the payment made by the State of Kolhapur towards the cost of the Residency and its establishment, for which we can find no justification in present circumstances.

90. We recommend that the payments\* made by the general body of States should disappear at least *pari passu* with the contributions in the form of taxes on income from the Provinces to the Federal Government. The recent Report of Lord Eustace Percy's Federal Finance Committee hazards no estimate of the time required for this process to take effect. We consider it, however, essential in the interests of the contributing States that a moiety of the contributions which remain payable after the remission which we recommend in the foregoing paragraph should be extinguished not later than ten years, and the whole not later than twenty years, from the date on which they enter Federation, and we recommend that provision should be made to this effect. We believe that long before these time limits are reached the pressure of provinces as well as States will have caused exceptional contributions from both groups of partners in the Federation to disappear, and will have replaced them by other forms of federal Revenue. Nevertheless we feel that the States will expect and are entitled to receive some assured guarantee of relief within a definite period, and it is on this ground that we base our recommendation.

### Summary of conclusions and recommendations.

We deal in this Chapter with the type of contribution generally known as tribute, payable to the Paramount Power (paras. 34 and 37).

They fall into two categories :—

- (1) those imposed or negotiated by British authority ;
- (2) those transferred by or inherited from previous suzerain powers or overlords (para. 41).

Under (1) we distinguish five classes, the first three comprising tributes arising from suzerainty, or obligations of a military character, the last two from the restoration or grant of territory, or the maintenance of local corps, police, etc, for special and local purposes (para 42).

Under (2) we distinguish two classes, the first comprising contributions acquired by conquest or lapse, the second, contributions assigned by treaty (para. 43).

The contributions are, in general, not of a feudal nature, and the principle of uniformity of contribution to federal resources, rather than any argument from feudal analogies, provides ground for remission (paras. 63—64).

We recommend for remission contributions falling under the first three classes which are not in return for material assets or for special or local purposes (para. 65).

We hold that territory, as opposed to land held as private property, should not be considered a "material asset," and we recommend that the fourth class of contributions be included for remission with the first three classes (para. 71).

We find that contributions for special or local purposes require, in general, further examination and decision on principles indicated, but we have provisionally classed them for remission, with the exception of the contribution from the State of Baroda, paid and used for the police of the tributary areas (paras. 73—75).

We also recommend for remission contributions acquired by conquest or lapse (para. 76).

We recommend that the assigned tributes specified in Appendix III, Class (7) should revert to the States which assigned them *pari passu* with the remission of those directly acquired (paras. 82—83).

We regard inter-State tributes as anti-federal, and express the hope that they will disappear (para. 81).

We recommend also :—

that fluctuating tributes should be stabilised at their present figures, and that the conditions attached to certain other tributes already remitted should be removed or relaxed (paras. 84—85) ;

that the securities representing the amounts paid for capitalised tributes should be returned *pari passu* with the remission of annual payments (para. 86) ;

that immediate relief should be given by the remission of the amount of any contribution which is in excess of five per cent. of the total revenues of the State which pays it (para. 88) ;

that the remaining payments should disappear, at least *pari passu* with the income-tax contributions from the Provinces, but that a moiety should be extinguished at the latest in ten years from federation, and the whole within twenty years (para. 90).

We estimate that the immediate relief will amount approximately to Rs. 12 lakhs a year, and that the net amount excluding these Rs. 12 lakhs, but including contributions in respect of local corps which will rank for remission, will not exceed Rs. 63 lakhs a year. If the savings resulting from disbandment of local corps are set off against the remissions, the total net cost to Government will be Rs. 59 lakhs a year (para. 89).

## CHAPTER IV.—CEDED TERRITORIES.

**Introductory.**

91. Under this head we have been required to report in regard to territories ceded by certain States to the British Government "in return for specific military guarantees." Here we must make it quite clear that the word "cession" implies a formal transfer, and cannot include cases where there has been no voluntary surrender of sovereignty on the part of a Darbar. Thus neither annexation nor confiscation can be described as "cession." We must also draw a distinction between a cession of sovereignty and a cession of jurisdiction such as is found in the case of railways, cantonments, etc. With these latter we do not concern ourselves in this Chapter. Still less can the remission of military obligations attached to annexed or confiscated territory bring a case within our Terms of Reference. Since British India is mainly an aggregation of annexations from or cessions by Indian States, it is not unnatural that dissatisfaction with the past settlements should still linger, and have found expression in representations to us; but the remedy if any for what has happened in the past must be sought elsewhere, unless there has been a cession of the particular type which we are empowered to examine.

92. Some confusion has also arisen from a mistaken belief that our Committee is an off-shoot of the Butler Committee of 1928-29 and has been appointed to continue the investigations with which that Committee was concerned, whereas our work is exclusively confined to preparing the way for Federation. It is obvious that even if we had authority to investigate and report on the numerous and diverse claims which have been brought to our notice, it would be impossible to complete such an enquiry within the time at our disposal, especially in view of the urgency of providing those on whom the responsibility for framing the future Constitution will fall with the material requisite for their purpose.

93. Finally, we can only base our recommendations on existing facts. Where there is a recorded decision on any point in dispute between a State and the Paramount Power or between two States, we are obviously bound to accept that decision. We do not seek in any way to brush aside the grievances of certain States, but for the purposes of our enquiry we have found only three States—Hyderabad, Baroda and Gwalior—where all the conditions set out in our Terms of Reference are indubitably present, and only two—Indore and Sangli—which have so many features in common with the other three as also to justify detailed separate consideration. The remaining claims we have had to set aside as outside our Terms of Reference.

**Analogy between Tributes and Cessions.**

94. The matter of ceded territories first attracted attention in the course of a discussion raised by the Mysore representative



during the Round Table Conference on the subject of those cash contributions formerly known as tributes. It was first agreed that tributes were inconsistent with the Federal idea and must ultimately disappear. The point was then raised by certain State representatives that there was no real distinction between tributes and cessions of territory. The analogy was thus questioned at the time, and while there was practical unanimity in favour of the ultimate remission of tributes, opinion as regards the treatment of ceded territories was divided, so much so that our Terms of Reference clearly contemplate the possibility of the rejection of all claims under this head.

95. An examination therefore of the supposed analogy between these two forms of contribution to military defence is a necessary preliminary to determining how far financial adjustment in the one case demands financial adjustment in the other. Our enquiries establish beyond all doubt that tributes and cessions of territory have, for the most part, a common origin, and that as often as not it was entirely a matter of chance whether a State paid tribute or ceded territory instead. Although the circumstances in no one State illustrate the entire process of development, the course of events in most cases was very similar.

96. In the earliest instances the obligation laid upon a State which entered into an alliance with the East India Company was simply to provide troops for mutual defence in time of war. In the next stage, owing to the inefficiency of the local levies, the latter were replaced by a force raised and officered by the Company at the expense of the allied State. Finally, owing to irregularity in the payment of the instalments intended to meet the cost of this force, it was arranged that for cash payments should be substituted a cession of territory estimated to bring in a net revenue equivalent to the sum annually required. We find it impossible, for instance, to draw any distinction between the origin and object of the Nizam's cessions in the Madras Presidency and the Cochin or Travancore tributes. So far, then, it would seem that, if a tribute-paying State has a claim to remission, a State which has ceded territory is equally entitled to some form of relief. We cannot admit the argument that in the one case we are dealing with a transaction which is final and irrevocable while in the other the arrangement is open to revision in the light of modern conditions.

### **Contrast between interests of taxpayers and interests of States.**

97. But in fact we are more impressed with another and a different line of argument. It has been pointed out more than once during the course of our tour that the idea underlying remission of tribute is the relief of the State tax-payer from a burden which the other tax-payers of the Federation will not be called upon to bear, whereas any form of compensation in lieu of ceded territories would be to subsidise the tax-payer of the State at the expense of the tax-payer of the Federation. As between tax-payers such an arrangement is obviously just as inequitable as the anomaly which it is supposed to remedy. Much, in fact, might be said for refusing any

form of compensation on account of ceded territories if the past could be ignored and the federal structure erected without any regard for what has gone before ; but this is in our view impossible. It is true that in the absence of a *tabula rasa* anomalies are inevitable. We are also now dealing in the first instance with States rather than with individual tax-payers, and we have to remember that from the State point of view retrocession of the ceded territory is the natural remedy and that financial adjustment is only a secondary and unwelcome substitute for retrocession. Critics in British India must also bear in mind that the particular States with which we are now concerned have of late years been contributing to the common defence in more ways than one ; firstly, through the incidence of indirect taxation arising from maritime customs, salt duty, etc., levied by British India ; secondly, by means of tribute or ceded territories ; and, thirdly, in most cases by the maintenance of State forces capable of employment in time of war or internal disturbance. Some States are actually contributing proportionately more to defence than their neighbours in British India, though it is equally true that there are other States which are paying very much less. We fully understand the contention so often expressed in British India that the States should be treated as a corporate body for purposes of entry into Federation and that the immunities and privileges enjoyed by one class of State should be set off against the contributions and payments made by another. Unfortunately for federal finance there is no connection between the States as a whole such as would justify this treatment of their respective credits and debits. For instance, Mysore, which desires remission of tribute, derives no advantage from the fact that Bhavnagar enjoys exceptional privileges in regard to sea customs, and it is out of the question to set off the credits of the one against the liabilities of the other.

98. In these circumstances we propose to examine on its merits each case which comes within our Terms of Reference, and deliberately to set aside all idea of a summary rejection of a claim, either on the ground that there is no analogy between ceded territory and tribute or that financial adjustment for ceded territory merely means the substitution of one form of tribute for another.

#### Identification of ceded territory.

99. Our first task has been to identify the various ceded districts. If it had not been for the valuable material collected by Mr. V. Narahari Rao and Mr. S. P. Bhargava, of the Special Committee, 1931-32, appointed by the Government of India for the purpose, it would have been impossible for us, to have completed even this work in the time at our disposal, for the complications owing to territorial adjustments and other causes are endless. Fortunately, every area included in the treaties of cession has been traced to the satisfaction of the State concerned. That no objection has been raised to their findings on this point is a very remarkable tribute

to the industry and perseverance of the two members of the Special Committee.

### Valuation of ceded territory.

100. The Special Committee was required at the same time to value the ceded territories, a task which they have carried out most satisfactorily. We are again impressed by the thoroughness with which their work has been done, and the fact that a representative of the Princes has signed the report is a further testimony to its impartiality. Unfortunately, for reasons which are fully set out by the Special Committee itself in the last Chapter of their Report, we have been unable to utilise this valuation in the manner contemplated when orders were issued for its preparation.

101. It has been explained above that in the first instance cessions of territory were made on the understanding that the net revenue or surplus of a ceded district should be sufficient to defray the cost of a particular number of troops. If conditions had remained constant during the last hundred years, the task of recommending a financial adjustment in lieu of the cessions would not have presented any particular difficulty ; but conditions have entirely changed in the interval. At the time of cession the land tax was almost the only source of revenue, while expenditure on administration was limited to the cost of collecting taxes and the maintenance of law and order of a very rough and ready kind. Since then there has been a progressive increase in the land revenue and other taxes have been imposed ; the gross receipts from all sources in the different territories coming under our consideration are often three or four times what they were at the time of cession. On the other hand, the cost of administration has grown out of all proportion to revenue. Such items as education, medical relief and public works, which found no place in the budgets of our earlier administrations, now require more money than taxation can supply. Further, the whole conception of Indian finance has undergone a change and it is no longer considered correct to budget for a substantial surplus ; on the contrary, a Government is expected to balance revenue and expenditure and, if revenue exceeds expenditure, to reduce taxation. Finally, military ideas and methods have been completely revolutionised. The problem of defence is now concentrated on the North West Frontier. Machines and modern armaments have become of more importance than mere numbers ; and the particular forces provided in the treaties are out of date and out of place under modern conditions. In the light of the above considerations it is obvious that, save in exceptional cases, such as Berar,\* the valuation of an area on the lines laid down for the Special Committee can have but one result. It will be found that, after excluding revenue ear-marked for federal purposes, there is no surplus of revenue over expenditure or, at any rate,

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\*The Berar case is expressly excluded from the Terms of Reference of our Committee.

that the surplus is negligible compared with the net value of the territories at the time of cession. We feel that it is impossible to dismiss the States' claims on the ground that the valuable territories ceded one hundred years ago are now apparently worth nothing or less than nothing, and are of opinion that we must re-examine the problem from a wholly different point of view.

### Objections to suggested methods of valuation.

102. From the point of view of the States, there is a strong argument against the summary dismissal of their claims on the ground that the valuation of the ceded territories leaves no margin for financial adjustment, for the States have expressed themselves as perfectly willing to close the matter by taking back the territories which they originally ceded. As between homogeneous units, this would be the obvious solution of the problem, but we are given to understand that retrocession is not within the bounds of practical politics, and our Terms of Reference certainly confine us to the recommendation of some financial adjustment instead. Yet to impose a method of valuation which deprives the States of all claim to financial compensation, and at the same time to refuse the alternative of retrocession, is unlikely to satisfy the Darbars or encourage them to enter Federation, and it is imperative that any recommendations which we make should be based on some principle which the States can be persuaded to accept as equitable.

103. During the course of our tour two alternatives have been suggested to us as a basis for the valuation of the ceded territories. In the first place, it has been argued that, even if retrocession is out of the question, our first step towards financial adjustment should be to proceed on the assumption that retrocession had taken place, and to ascertain whether under the State system of administration there would not be a substantial surplus available. We have been invited to examine the budgets of Hyderabad, Baroda and Gwalior and to note that these States not only budget for an annual surplus but justify this policy by pointing to the large reserves they have accumulated in the past,—reserves which are proving of the greatest value in these days when so many Governments are so seriously embarrassed. At the same time, we are asked to compare the system of administration of, for instance, the State of Baroda with that of the Bombay Government in Gujerat, and to observe that the standards of the two are not so very different. It may well be that the administration of the ceded districts would be less costly if they had remained uninterruptedly in the possession of a Darbar, but the course of events during the last hundred years cannot be ignored, and we believe that even in the event of retrocession it would be quite impossible for a State to reduce its scales of pay and of special services to a substantially lower level without giving rise to very serious trouble. We must admit that a reduction of overhead charges would not provoke the same discontent as a general reduction of salaries in the district itself; but we find any approach to the problem on these lines too vague and general for practical purposes. We are not, therefore, prepared to apply to the ceded



territories the ordinary scales of pay and standards of State administration as an element in valuation, nor to adopt any arbitrary percentages with a view to scaling down the cost of overhead charges.

104. Another method suggested for our consideration was to ascertain the present-day cost of the military units specified in the treaties of cession, and to credit the States with this figure in lieu of compensation based on the net revenue. We fully admit that the territories under consideration were only surrendered in return for obligations accepted by the Central Government at the time, and that until its claims are adjusted the State which has ceded territory cannot in fairness be asked on entering Federation to contribute to defence on the same basis as other units which have made no such sacrifice. To place all units on a common footing, the special obligations of the Central Government in regard to defence must be liquidated, but, as we have already stated, the changes in military ideas and methods have been so far-reaching that any valuation of the present-day cost of troops specified over a hundred years ago would be merely misleading, and offers no prospect of a satisfactory solution of the difficulty.

#### Method of valuation proposed.

105. After the fullest consideration of the whole question we find ourselves compelled to adopt a method which we realise is open to certain objections, but which we definitely believe to be the fairest which we can recommend. When the districts were surrendered a careful estimate of their values was recorded and accepted by both parties to the agreement. In the present situation it is desired to cancel this agreement. Both revenue and expenditure have largely increased since the date of cession, but no valuation based on present revenue and expenditure affords any prospect of a settlement satisfactory to both parties. We consider that the Federal Government, once the alternative of retrocession has been rejected, must accept the responsibility for any reduction in the net value of these districts during the last hundred years, and we propose to treat the net value at the date of cession as the basis for our recommendations. There are, of course, cases where special circumstances render some modification of this method necessary, but generally this is the method we prefer. In the succeeding paragraphs will be found a detailed examination of the five cases we have held to come within our Terms of Reference, together with our recommendations as to the financial adjustment appropriate in each individual case.

#### (1) Territories ceded by the Nizam of Hyderabad.

106. The long and bitter struggle for the South of India has been briefly described in the second Chapter of this Report. From 1759 onwards the Nizams of Hyderabad were almost invariably in alliance with the East India Company, and it was during this period of constant warfare that the system of subsidiary and contingent forces dependent on ceded or assigned territories was

evolved. In Hyderabad the process of evolution followed very much the course described in the earlier part of the present Chapter. In 1766 the East India Company first undertook to furnish the Nizam with a body of troops "ready to settle the affairs of His Highness' Government whenever required." In 1768 this engagement was revised, and the Company agreed to furnish the Nizam on his requisition with a definite force (two battalions of Sepoys with guns), the Nizam to defray the cost of these troops whenever employed in his service. In 1798, on the eve of the second war with Tipu, the subsidiary force was made permanent and raised to six battalions with guns, costing Rs. 24,17,100 per annum payable quarterly from the Nizam's treasury. Finally, in 1800, after the conquest of Tipu and the fall of Seringapatam, a new treaty was concluded under which the subsidiary force was to consist of 8,000 infantry and 1,000 cavalry with guns; and territories, mostly those acquired from Tipu by the Nizam, were ceded in lieu of cash payment for the maintenance of the troops.

107. The districts ceded under this treaty are all in the Madras Presidency and have been identified with the districts of:—

- (i) Bellary,
- (ii) Anantapur,
- (iii) Cuddapah,
- (iv) Kurnool,
- (v) the Taluqas of Madanapalle and Vayalpad in the Chittoor district.

There can be no doubt that the above districts were ceded in return for specific military guarantees.

108. On the other hand, there are certain areas in the Central Provinces and Madras which were ceded at a later date, but, as we will show, cannot be included in our recommendations for financial adjustment, viz., the Taluqas of Rakapally, Bhadrachalam, Cherla, Albaka, Nagur and Sironcha. These areas ceded in the treaty of 1860 were included by the Special Committee in their valuation. We find that the cession of these taluqas was part of a general re-adjustment of boundaries and was not connected in any way with the military obligations or guarantees with which certain other articles of that treaty are concerned. We must hold that this cession is outside our Terms of Reference and should not in any case form the subject of any financial adjustment.

109. We are left, therefore, with the territories enumerated in paragraph 107 as the cessions intended for the maintenance of a subsidiary force consisting of 8,000 infantry, 1,000 cavalry and guns.

110. The Nizam's Government has in the course of the last hundred years accepted certain modifications in regard to the exact composition of different units of this force; but in all essentials the present garrison of Secunderabad represents the subsidiary force of 1800. It has been admitted by the Nizam's representatives in the course of their discussions with us that the military obligations assumed by the East India Company in 1800, and inherited

by the Crown, are fulfilled to His Exalted Highness' complete satisfaction. If Hyderabad is now to enter Federation, contributing on a uniform basis with other units to federal resources (including defence), demanding no special form of protection, and dispensing with the services of the subsidiary force, there is obviously a case for financial adjustment once retrocession of the ceded districts is rejected as a remedy.

111. At the time of cession it was supposed that the ceded areas in the Madras Presidency would yield a revenue of Rs. 71.81 lakhs per annum. As a matter of fact, in 1801 the revenue was no more than Rs. 36.70 lakhs, and only reached Rs. 60 lakhs five years later. According to the calculations of the Special Committee, based on a five years' average, the revenue is now :—

Central .. .. .	Rs. 63,31,500*
Provincial .. .. .	Rs. 1,81,88,100*
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Total ..	Rs. 2,45,19,600*
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It is interesting to observe that, out of the large sum now realised from these districts, land revenue amounts to only Rs. 76,39,300, or very little more than the assessment at the date of cession. The greater part of the present revenue of Rs. 245 lakhs is derived from new taxes of a type unknown in 1800 and certainly entirely beyond the capacity of the inhabitants at that time to pay. The increase in the cost of administration is no less remarkable. The figures supplied to us are :—

Expenditure—Central .. ..	Rs. 4,23,000
„ —Provincial .. ..	Rs. 1,71,89,900

As a matter of fact, these totals are entirely misleading, as the figure for expenditure under the head “ Central ” merely includes the cost of collection, whereas central revenues are raised and utilised to defray the cost of defence, etc., and there is in fact no surplus at all. Under the head “ Provincial,” there is an apparent surplus of Rs. 9,98,200 per annum ; but the Special Committee very rightly point out that it is a question whether certain charges on account of Public Works and Famine should not be deducted from this total. We do not consider charges in the case of works for which no capital accounts are kept to be a correct debit, inasmuch as such works have ordinarily been financed out of revenue. On the other hand, we consider the revenues of the ceded districts to be rightly charged with interest on account of works for which capital accounts are kept, in view both of the Meston award† and of the circumstances of the case.

\* The above figures include the six Taluqas which are outside our Terms of Reference. But we have ascertained that the sum involved is so insignificant that it can be ignored, especially in view of the treatment which we recommend on the main question at issue.

† The Meston award was the first step to the separation of central and provincial finance after the Montague-Chelmsford reforms.

112. In the matter of famine expenditure the debit of Rs. 28,000 per annum appears to us to be insufficient. This figure, it is true, represents the ceded districts' proportionate share of the provincial contribution to the Famine Insurance Fund ; but this apportionment entirely ignores the fact that the districts in question are those most liable to famine in the whole of the Madras Presidency. It is the average expenditure in these particular districts, and not the average of the Presidency, that we should apply in our estimate. During the last 50 years no less than Rs. 3½ crores have been expended on famine work and famine relief in these districts. Further, the five years' period on which the revenue estimate is based does not include a single famine year, while famines are a regular feature of this tract and necessarily occasion considerable loss of revenue when they occur. For instance, in 1876 remissions of land revenue amounted to Rs. 30 lakhs, and in 1896 to Rs. 21 lakhs ; and there must in every case have been a corresponding diminution in the receipts from other taxes. We are well aware that with the extension of railways famines are of far less frequency and severity than was the case even 30 years ago. But we feel that crop failures are as unavoidable as ever in this dry belt and that the debit of only Rs. 28,000 per annum is insufficient to meet the case.

113. In the circumstances, we are driven to the conclusion that there is no such surplus under provincial revenues as can be made the basis of any financial adjustment. We must take it that provincial revenue and expenditure balance approximately over a period of years. Thus, if the ceded districts were returned to Hyderabad and the present system of administration and social services maintained, we find that the greater part of the Rs. 63,31,500 (central revenues) would under Federation go to the Federal Government, customs, salt and other indirect taxes having been allotted to the federal fisc. All that Hyderabad would retain would be direct taxes—net Rs. 3,97,300\*—while under provincial revenue there would be little or no surplus at all.

114. Here there is an additional complication, as in Hyderabad there is no income-tax, whereas considerable revenue is raised by means of internal customs duties which find no place in the fiscal system of British India. We need not, however, pursue these calculations any further, as we are informed by the representatives of the Nizam that His Exalted Highness' Government has no wish to accept any financial adjustment in lieu of the ceded territories, and desires the continued maintenance of the subsidiary force and the full performance of the treaty obligations undertaken by the Company's Government in 1800. The treaty is only terminable

\* Direct taxes—Central—

Income-tax	Rs. 5,82,200
Miscellaneous	„ 3,900
Total	„ 5,86,100
Deduct cost	„ 1,88,800
Net	Rs. 3,97,300



with the consent of both parties, and there is, therefore, no option but to meet the wishes of His Exalted Highness' Government.

115. The fulfilment of these obligations, however, does not impose as serious a burden on the military budget as would be the case if the units of the subsidiary force could not be moved outside the Nizam's dominions. This was certainly not the intention of the Allies in 1800, and these units are still available for active service (see article 5 of the treaty of 1853). They were utilised in the Boer War, in the Great War, and more recently in the Burmese rebellion of 1931, with the cordial approval of His Exalted Highness the Nizam. Thus, if the subsidiary force did not exist, it would probably be necessary to raise new units for the Indian Army. In our opinion, the continuance of this form of special protection in the case of the Nizam can be accepted without any undue strain on federal resources. It was at one time suggested that under Federation the Hyderabad Government should be reimbursed for the cost of any units of the subsidiary force employed on active service, but this would be at variance both with the letter and spirit of the treaty. Apart from this, we understand that the Hyderabad Government is prepared to meet its full share of the burden of defence under Federation, subject, of course, to the retention of the subsidiary force at Secunderabad and the due performance of the duties for which it is responsible.

116. In conclusion, we have no financial adjustment to recommend in this case, as no such arrangement is desired by His Exalted Highness' Government. But we must add that had that Government preferred a financial settlement it would have been necessary to take into consideration not only the immunities which it desires to reserve under Federation and which are discussed in a later Chapter, but also the fact that at the time of cession the revenue of the ceded districts fell very far short of the estimates included in the Schedule of the treaty.

## (2) Territories ceded by the Gaekwar of Baroda.

117. The history of the cessions made by the Baroda Darbar in return for specific military guarantees begins with the year 1802, when internal disorders and family feuds led to appeals to the East India Company and to the intervention of the British forces in the State. This intervention rescued the State from its own mercenary troops who had made themselves its masters, and restored the legitimate claimant to the *gadi*.

118. One of the conditions on which assistance was given was that the State should receive and maintain a subsidiary force. The first cession of territory for the payment of this force was made in 1803. It is unnecessary to go into the details of the arrangements prior to 1805, as by a treaty concluded in that year all former engagements were consolidated. By this treaty the East India Company was to furnish a subsidiary force of not less than 3,000 infantry with one company of European artillery and two companies of gun lashkars with the necessary ordnance, warlike stores and ammunition. To provide for the payment of this force, the Gaekwar confirmed all former cessions and assigned additional districts and

funds to the value of Rs. 11,70,000. In 1808 it was found that the actual realisations from the ceded territories and cash assignments did not produce the estimated revenue, and further cessions to the value of Rs. 1,76,168-15-0 were arranged, bringing the total up to the agreed figure.

119. In 1817 the Gaekwar's minister who had been sent under British guarantee on a mission to the Peshwa's Court at Poona was assassinated, and in consequence the Peshwa was obliged to renounce all further demands against the Baroda Government, to compromise all past financial claims for an annual payment, and to transfer to the Gaekwar his territory in Gujerat attached to the city of Ahmedabad in perpetual farm. At the same time, a new treaty was concluded between the Gaekwar and the East India Company by which an addition of 1,000 native infantry and two regiments of native cavalry was made to the subsidiary force, while, to provide for the regular payment of these additional troops, the territories and revenues comprising the perpetual farm of Ahmedabad were ceded and accepted at a net value of Rs. 12,61,969. Certain exchanges of territory took place by an article added to this treaty in 1818.

120. The estimated net value of the territories ceded and the cash assignments transferred thus amounted to Rs. 24,31,969. The approximate area of the territories in question is 3,845 square miles, and the population according to the census of 1921 was 12,56,300. The total area of the territories remaining to the Gaekwar after these cessions, and now in his possession, is 8,164 square miles, with a population of 24,43,007. We desire to draw special attention to the magnitude of the cessions in this case, having regard to the total area of the State and to the fact that the Gaekwar of Baroda was an ally of long-standing, and that the cessions did not follow defeat in the field as in the case of Gwalior and Indore.

121. The duties of the subsidiary force were defined in the treaties of 1805 and 1817. Article 4 of the former provides that the subsidiary force "will be ready at all times to execute services of importance, including the protection of the person of the Gaekwar, his heirs and successors, overawing and chastisement of rebels and excitors of disturbances in his territories and the due correction of his subjects or dependants who may withhold payments of the Sarkar's just claims." Article 2 of the treaty of 1817 declares that the subsidiary force "will at all times be ready to execute services expressed in the fourth article of the treaty of 1805." There can thus be no doubt that these territories were ceded in return for specific military guarantees.

122. The identification of the territories ceded by Baroda has presented a most difficult problem, but through the exertions of Mr. Narahari Rao and his colleague, Mr. Bhargarva, it has been found possible to compile a list which has been accepted both by the Government of Bombay and the Baroda Darbar. The list of the ceded territories is as follows :—

(1) The whole of the present districts of Kaira and Ahmedabad minus—

(i) the Fort and Jagir of Kaira, granted in "Inam" to the East India Company by the Gaekwar in 1803,

(ii) half the city of Ahmedabad and the Gaekwar's Daskroi given in exchange for Dubhoy, Sowlee, Bahadurpur, etc.,

(iii) the territories ceded by the Peshwa by the treaty of Bassein, viz. :—

(a) Napad Tappa in Borsad, and

(b) the Talukas of Dhandhuka, Chuda, Ranpur and Ghoga.

(2) Kurrode (Kadod) in the Surat District.

123. It is to be noted that in addition to the territories certain funds were assigned by the Gaekwar at the same time. These are specified in Class (7) of the Cash Contributions detailed in Appendix III to our Report. It has been impossible to identify all the villages or shares in villages, at least in one case—that of Kaira Jagir. The Special Committee made a proportionate deduction, based on its value (Rs. 42,000) at the time of cession, from the revenue as well as from the expenditure of the ceded districts on account of this Jagir. By this method the difficulty of dealing with the unidentified territories has been overcome.

124. The valuation of the ceded territories by the Special Committee is given below :—

	Provincial.	Central.		
		Direct.	Indirect.	Total.
	Rs.	Rs.	Rs.	Rs.
Revenue ..	56,11,700	11,77,800	36,13,400	47,91,200
Expenditure ..	68,91,900	1,89,300	97,200	2,86,500
	—12,80,200	+9,88,500	+35,16,200	+45,04,700

The net result of the valuation, on the assumption that indirect taxes go to the Federal Government, is a deficit of approximately Rs. 3,00,000 per annum.

125. The Baroda Darbar does not accept this valuation as a basis of financial adjustment. The most important criticism advanced on behalf of the State is that the years on which the figures of land revenue of the Ahmedabad and Kaira districts have been calculated and on which the valuation is based were not average years. but included years in which the districts were visited by floods and frosts of an unprecedented character or were seriously affected by political movements and the world-wide financial depression. It is suggested that the sanctioned total land revenue for Ahmedabad and Kaira should, subject to the necessary deductions for the non-ceded areas, be adopted as the Standard. The sanctioned total land revenue for Ahmedabad is Rs. 33,73,095 and for Kaira Rs. 30,04,163. The Darbar suggests that these figures be adopted rather than the figures given by the Special Committee (Rs 16.87 lakhs for Ahmedabad and Rs. 18.24 lakhs for Kaira).

126. We have closely scrutinised these arguments and find that, in the first place, the sanctioned total land revenue for these districts is really a nominal figure, seeing that very large sums (Rs. 15.79 lakhs for Ahmedabad and Rs. 9.43 for Kaira districts) have to be deducted from the gross amount on account of revenue which never finds its way to the Treasury, being deductions for lands assigned for specific and public purposes, alienations for Inams, uncultivable land and land held free or on specially reduced terms. The Special Committee has in fact drawn attention to the large alienations of land revenue which are special features of Kaira and Ahmedabad districts. We find the average land revenue demand for the ten years ending 1920-30 was Rs. 18.82 lakhs for Ahmedabad and Rs. 22.72 for Kaira. But from this has to be deducted the average remissions of the ten years, Rs. 2.69 lakhs and Rs. 2.66 lakhs, respectively. We are convinced by these figures that the credit given in the Special Committee's Report for the districts is neither unreasonable nor inadequate. We were at first impressed by the argument that the adverse factors referred to above might have affected the revenue during the period upon which our calculations are based. A scrutiny of the actual collections from the year 1917-18 and onwards has made it clear that the figures shown are by no means below the average, and that in other years remissions and suspensions have been even more considerable than in the years taken into our account. Thus the net average collections of the two districts during the ten years beginning with 1920-21 are actually less than the average land revenue of the two districts worked out by the Collectors and embodied in the Special Committee's Report. There seem no grounds therefore for questioning the fairness of the basic figures used in the above valuation.

127. The Darbar has also criticised the method adopted for ascertaining the amount of customs duty on goods consumed in the Baroda ceded territories, basing its argument on the fact that the proportion of urban to the total population is very high, that these territories include a very large and highly developed industrial city—Ahmedabad—and that the mileage of railways and consumption of sugar in the two districts is much higher than the average of the whole of India. But these factors have automatically entered into the computation, and full provision has been made for the necessary weightage for the towns, factories and railways which the area possesses. The Special Committee, for reasons which it has stated, has modified and improved its original scheme of calculations in some respects. But the result, so far as Baroda is concerned, has been slightly to reduce the total duties for all Baroda ceded territories—from Rs. 33.87 lakhs to Rs. 33.26 lakhs. In the revised estimate the import duty per head for Ahmedabad and Kaira districts works out at Rs. 3-2-6 against the average for the whole country of Rs. 1-4-2. In the case of Ahmedabad district, the figure is as high as Rs. 4-7-11. It is evident therefore that the valuation makes full provision for the special circumstances and the high rate of consumption of imported goods in the territories in question. On sugar, which has been specially referred to by the Darbar, 83 per cent. more duty has been credited than the actual population of the ceded territories would warrant on an average basis. The serious diminution in customs returns of recent



years in spite of increased duties is also an important factor in this connexion. But it is unnecessary to pursue the matter further, as customs are ear-marked as a source of federal revenue and must continue to be paid to the central exchequer in any case. We cannot agree that the State is entitled to any special credit on this account under the federal scheme as outlined at the Round Table Conference.

128. The Darbar has also contended that income-tax was affected by the adverse factors referred to in the case of land revenue, and has suggested that an average of the periods 1917-18 to 1921-22 and 1926-27 to 1930-31 should be taken. The former period was that of the war and postwar boom, and can hardly be accepted as one of normal revenue. In view of the present economic conditions and the world-wide financial depression, an average of the five years ending 1931 does not appear to us to be an unreasonable basis for the calculations of returns from the ceded territories.

129. The final criticism put forward by the Darbar refers to the high cost of administration generally in the Bombay Presidency, including the districts in question, and the drastic retrenchments which are in operation or are contemplated in that Presidency. As regards the latter factor, it is evident that retrenchments are compelled by falling revenue and that, if account is to be taken of them, the revenue also would have to be recalculated.

130. Thus, after careful consideration of the criticisms of the Darbar which are summarised in the preceding paragraphs, we consider that there is no ground for any serious modification of the calculations which have been made as to the value of the ceded territories. At the same time, we feel that this valuation is by no means a complete and satisfactory answer to the State's claims for financial adjustment. It is difficult to convince a Darbar which maintains a high standard of administration that the retrocession of districts, well known to be among the richest in India, would only burden the State with a deficit. There is no better illustration of the extent to which the system of administration affects the valuation of ceded territory than the fact that the famine districts of Madras apparently return a surplus every year, while the rich districts of Gujerat are encumbered with a heavy deficit. The cost of administration in the Bombay Presidency may be high ; but it is well known that one of the great difficulties of the Local Government has been that its large urban and port areas are deprived of their main source of revenue, income-tax, which goes to the Central Government. The Baroda Darbar, however, can hardly be expected to accept the financial policy of the Presidency or the allocation of revenue between Central and Provincial Governments as a sufficient reason for holding that its ceded territories are worth less than nothing.

131. The Darbar has suggested that either the present day cost of maintaining the subsidiary force should be credited to it in lieu of the ceded territories, or that the percentage of expenditure to revenue in the Baroda State should be applied to the gross revenue of the ceded districts and the resultant surplus made the basis of a financial adjustment. Both these methods have been dealt

with in the introductory Chapter, and we are unable to accept either as a basis for a settlement. We are thus faced with the difficulty of finding some other method of arriving at a financial adjustment, in view of the fact that we regard it as inequitable to treat these areas as of no value. It is not within our Terms of Reference to recommend retrocession of territory. But in this case we consider that the possibility of at least a partial retrocession of territory might be considered. The Baroda State, apart from its possessions in Kathiawar, consists of three isolated blocks in Gujerat, and some measure of consolidation would no doubt be very welcome to the Darbar. In the event of any retrocession being considered impossible, we hold that the Darbar may well claim that the territories when handed over to the British Government were worth the Rs. 24,31,969 at which they were transferred, and that the British Government is responsible for any diminution of value, especially in view of the fact that the gross revenue has admittedly risen since 1818 to over Rs. 1 crore per annum. Such a settlement would, of course, imply cancellation of all special military obligations and the acceptance by the Baroda Darbar of the common burden of defence. It is relevant to add that the latest estimate of the State's present contribution to the central revenues from the non-ceded territories is Rs. 35,88,800, of which Rs. 31,60,600 are derived from customs duties, and that the greater part of this sum is utilised on payment for defence.

132. Accordingly we recommend a financial adjustment based on an annual contribution of Rs. 24,31,969, to cover both the territorial cessions and cash assignments for the maintenance of the subsidiary force. We are aware that subsequently to 1818 the Government of India made over to the Gaekwar territory including what is now the valuable port of Okhamandal, and have considered whether this cession should be regarded as a set-off. We are of opinion that the value of the territory itself is not worth taking into consideration. Okhamandal was for many years a deficit district and a drain on Baroda's resources. But here as elsewhere we propose to set off immunities against contributions, and our recommendations on this point will be found in Chapter IX.

### (3) Territories ceded by the Maharaja Scindia of Gwalior.

133. His Highness the Maharaja of Gwalior is a minor. The case for the Darbar has, however, been ably represented by the Council of Regency. In the matter of ceded territories two separate claims are advanced. The first concerns the territories ceded by the Gwalior Darbar in 1803; the second concerns territories ceded under the treaties of 1844 and 1860.

134. By the treaty of 1803, after the complete defeat of his armies both in Central and Upper India, the Maharaja Scindia ceded to the East India Company extensive territories in Hindustan and south of the Ajanta hills, the value of the former alone being nearly Rs.  $1\frac{1}{2}$  crores per annum at that time. By article 15 of the same treaty the Maharaja was given the option of becoming a party to the defensive alliance concluded by the East India Company with the Peshwa and the Nizam, and the Company engaged in the event of his accession that it would, "with a view to the future security

of the Maharaja's territories", maintain a subsidiary force of six battalions of infantry with their complement of artillery and defray the expense of this force out of the revenues of the lands ceded by the second, third and fourth articles of the treaty. It was added that if the option was not exercised the Maharaja's refusal was not to affect any of the other stipulations of the treaty, or, in other words, that the cession of territory would stand as before. As a matter of fact, the Maharaja agreed to join the alliance, and, as a result, a second treaty was concluded in 1804, by which the East India Company undertook :—

(1) to afford protection in the event of unprovoked aggression against the rights and territories of the Maharaja ;

(2) to furnish the subsidiary force described in article 15 of the treaty of 1803 ;

(3) to defray the cost of this force out of the revenues of the territories ceded by the Maharaja under that treaty ; and

(4) to hold this force at all times in readiness near the frontier of the State to execute services of importance on the requisition of the Maharaja.

135. It is not contended by the Darbar that the territories ceded in 1803 were an exact *quid pro quo* for the subsidiary force, but it is argued that "portions of such territories, to the extent to which their revenues were to be appropriated for the maintenance of the troops, were charged with the performance of those duties though such portions were not specified."

136. We are, however, unable to accept this interpretation of the treaties of 1803 and 1804, as in our opinion the cession of territory in this case was unconditional. It is true that a part of the revenue of the ceded territories was in a certain event to be assigned to defray the cost of the subsidiary force. But it is reasonable to assume that this provision was included as an inducement to the Maharaja to exercise his option ; the Company did not demand a further contribution from the Maharaja in the event of the force coming into existence for his benefit, because, as explained by Sir Arthur Wellesley, "Scindia shorn of so much territory could not bear the cost of the subsidiary force."\* It was open to the East India Company to appropriate for any purpose the revenue of lands formerly belonging to and ceded by an Indian State ; but that did not and could not imply that the State was to be regarded as having ceded the lands for that particular purpose. That this is no novel interpretation of article 15 of the treaty of 1803 is confirmed by another quotation from Mills' History of India :—"Lastly an article was inserted leaving the way open to form afterwards an additional treaty for a subsidiary allowance, which in this case was not to be subsidiary ; for the English Government stipulated to afford the troops, their pay and subsistence without compensation, either in money or land."

137. In the circumstances, we are unable to deal with this case as "cession of territory in return for specific military guarantees",

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\*James Mills' History of British India, page 382, Volume VI.

although we consider the Gwalior Darbar to be entitled to requisition the services of a subsidiary force to be stationed near the frontier of the State for any of the purposes defined in the treaty of 1804. If the Darbar no longer desires this special form of protection, it is of course at liberty to release the Government of India from its obligations. But, in our opinion, the Darbar would not thereby become entitled to claim compensation in regard to any territories ceded in 1803.

138. The Darbar has also quoted in support of its contention article 5 of the treaty of 1844, wherein a deduction is made from the bill of costs presented after the battles of Maharajpur and Panniar of an amount equivalent to the expenses of 6,000 men with artillery and stores. We can only say that this deduction is strictly in accordance with our interpretation of article 15 of the treaty of 1803. It has never been denied that the Darbar is entitled on certain occasions to the services of 6,000 men, etc., at the expense of the Government of India. But this does not imply that the cessions of territory in 1803 were in return for specific military guarantees. The consideration for the subsidiary force was Scindia's adhesion to the alliance, not the cession of territory, which was the price the Maharaja had to pay for his defeat in the field, whether or not he joined the alliance. It is not denied that the troops now stationed at Mhow, Neemuch, Jhansi and Agra supply the equivalent of the subsidiary force, and consequently the Darbar does not appear to have any claim to compensation on the ground of non-performance of its obligations by the Central Government. We may add that, as in the case of Hyderabad, the maintenance of this force does not involve a very serious charge on the military budget, as these troops are always available for service in time of war (see article 10 of the treaty of 1804) ; in fact, the Central Government has little to gain by the cancellation of this obligation, as the disbandment of the force would simply mean that more troops would have to be raised to take their place.

139. The cessions of territory under the treaties of 1844 and 1860 differ in essentials from those made under the treaty of 1803 and undoubtedly may be classed as "cessions" within our Terms of Reference. The history of these territories begins in 1817 with the Pindari War, when the Maharaja undertook to furnish a contingent of 5,000 horse for the campaign. For some reason the obligation was continued after peace was restored and, in the course of time, as usually happened, the State troops were replaced by a force organised by the East India Company and maintained at the expense of the Darbar. This arrangement was never regularised by treaty till 1844 after the battles of Maharajpur and Panniar. By that treaty the contingent, which had hitherto cost nearly Rs. 5 lakhs per annum, was increased, and assignments of territory and tribute valued approximately at Rs. 18 lakhs per annum were set aside for its payment. A condition was also inserted in the treaty that, if the net revenue exceeded Rs. 18 lakhs in any one year, the surplus was to be paid over to the Maharaja ; if there was a deficiency, he was to make it good. It is also important to observe that the districts so transferred were merely assigned for management and that sovereignty was not ceded at the time.



140. In 1860, a new treaty was substituted for that of 1844 with the object :—

(1) of rewarding Scindia's services during the Mutiny by a grant of territory worth Rs. 3 lakhs ;

(2) of exchanging certain territories with a view to the consolidation of the possessions of the two contracting powers, and

(3) of effecting a formal transfer of sovereignty over those districts which were to remain with the British Government.

At the same time it was provided that a new subsidiary force should be constituted in place of the old contingent, and that the cost of this force should not be less than Rs. 16 lakhs per annum. This subsidiary force must not be confused with the subsidiary force created under the treaty of 1804. The latter was to be stationed outside the Gwalior State, the former, which took the place of the contingent, within Gwalior territories. The permission of the Maharaja was obtained after the Great War to transfer the second subsidiary force, represented by the Central India Horse, to cantonments outside the State.

There remain therefore no troops of either subsidiary force in Gwalior territory to-day, except when there is a regiment in Neemuch.

141. Identification of the districts ceded for specific military guarantees under the treaties of 1844 and 1860 has been a work of extreme difficulty owing to the exchanges of territory in 1860 and numerous adjustments and transfers since that date. But it is unnecessary to follow these in detail, as the Special Committee has been able to secure acceptance by the Gwalior Darbar of the list it has prepared for our use. This list is as follows :—

(i) *Central Provinces.*

(1) Nimar district excluding

(a) the parganas of Kanapore and Beria in the Khandwa Tahsil ;

(b) Asirgarh fort and 17 villages attached.

(2) Betul district, 48 square miles transferred from Nimar district.

(3) Hoshangabad, Harda Tahsil.

(4) Saugor district, (a) Rahatgarh .. 113 villages.

(b) Malthone .. 78 "

(c) Gurrakota .. 77 "

(d) Kanjia .. 104 "

(ii) *Bombay Presidency.*

(1) 272 villages of East Khandesh district.

(2) District of the Panch Mahals.

(3) 11 villages of Sholapur district.

(4) 2 villages of Ahmednagar district.



(iii) *United Provinces.*

- |                                 |    |                  |
|---------------------------------|----|------------------|
| (1) 38 villages of Bhandar      | .. | Jhansi district. |
| (2) 380 villages of Chandheri   | .. | " "              |
| (3) 160 villages of Kachwayagar | .. | Jalaun district. |
| (4) 58 villages of Jhansi ..    | .. | Jhansi district. |
| (5) 17 Jagir villages ..        | .. | Muttra district. |
| (6) 3 Jagir villages ..         | .. | Agra district.   |

(iv) *Central India.*

- (1) Pargana of Manpur.

(v) *Rajputana.*

- (1) 9 villages of Ajmer Merwara.

With the exception of a few which are untraceable and have probably been deserted, all these villages have been identified.

142. The total value of the cessions in 1860, including both territory and tributes, has been given by the Special Committee as Rs. 14.54 lakhs—ceded territory Rs. 10.03 and cash assignments Rs. 4.51. The transactions involved have been so complicated that it is sometimes difficult to ascertain the exact value attached to a particular area included in the cession, but we believe that no more accurate apportionment of revenue to territory is possible after this lapse of time. Here we must refer to the Darbar's claim to be credited with the full value of the territories and tributes assigned in 1844, namely, Rs. 17.60 lakhs, rather than with Rs. 14.54, the figure recommended by the Special Committee. The Darbar argues that, if the Mutiny reward of Rs. 3.00 lakhs had been given out of British territory instead of Gwalior's past assignments, the whole of the latter would have been intact and have entered into our calculations. But, as the Special Committee observes, we can only go on facts as they are and not as they might have been. We find after careful consideration of the Special Committee's explanations that on this issue its identification of the ceded territories is entirely satisfactory.

143. Finally, the tributes or cash payments transferred to make up the sum required to defray the cost of the second subsidiary force and for which the Darbar are entitled to a credit, are as follows :—

		Rs. (various currencies).	British Rs.
		<i>Amounts shown in Aitchison.</i>	<i>Present value.</i>
1. Kotah	..	99,176	94,218
2. Kotrees	..	10,279	9,252
3. Ratlam }	..	1,08,550 }	42,000
4. Sailana }	..		21,000
5. Jodhpur	..	97,200	1,08,000
6. Amjhera	..	34,387	34,019
7. Unarsi	..	21,100	23,000
8. Khilchipur	..	..	11,134
9. Keshorai Patan	..	80,000	80,000
Total	..	4,50,692	4,22,623

These tributes have been further dealt with in Chapter III and in Class (7) of Appendix III of our Report.

144. The revenue and expenditure of the ceded territories at the present day are given below. The details are to be found in Chapters XVI and XIX of the Special Committee's Report.

<i>Central.</i>		Rs.	<i>Provincial.</i>		Rs.
Revenue—			Revenue		
Direct	..	4,60,100	..	51,54,700	
Indirect	..	25,66,000	Expenditure	..	58,21,300
		<hr/>			<hr/>
		30,26,100	Deficit	..	6,66,600
		<hr/>			<hr/>

145. As has been pointed out in the case of Hyderabad, the State can derive no benefit from indirect taxes under a Federal Government, and the only receipts, therefore, payable into the State treasury in the event of retrocession would be direct taxes amounting to Rs. 2,45,200 net. The provincial revenue shows a deficit of Rs. 6,66,600. The Darbar strongly objects to the use of these figures as a basis for financial adjustment. In fact, it was suggested by one of the State's representatives that the Central Government might well call upon the State to surrender more territory to make up the deficit on the territory already ceded; that no doubt under British administration these latter cessions would be found as valueless as the first; that ultimately the whole Gwalior State would be absorbed; and that the only result would be to add to the liabilities of the Central Government. This *reductio ad absurdum* cannot be dismissed as a mere pleasantry, and it may help to bring home to those who have had no previous contact with States the point of view from which these questions are regarded on the other side of the border.

146. The Darbar's view in regard to financial adjustment is that it should be based on the sum which the treaty prescribes as the annual expenditure to be incurred by the Central Government on the subsidiary force. It would further substitute the figure Rs. 18 lakhs from the treaty of 1844 for the figure Rs. 16 lakhs given in the treaty of 1860. We see no reason for the substitution of a discarded figure for the existing obligation, but we hold that it is not unreasonable to accept the latter figure, 16 lakhs, though slightly in excess of the value of the cessions when the treaty was concluded (Rs. 14.54 lakhs). It is hardly likely that the Government of the time would have consented to maintain a force costing more than the value of the cession, if there was not some very good reason for so doing. It has also to be remembered that an award of only Rs. 14.54 lakhs does, as a matter of fact, deprive Gwalior of all benefit from the Mutiny reward. Having regard to all these considerations, we feel that to extinguish the Central Government's obligation for a lesser sum than it is compelled to spend under the treaty cannot be justified. Accordingly we recommend that the basis of the financial adjustment in this case be the sum of Rs. 16 lakhs prescribed in the treaty of 1860.

#### (4) Territories ceded by the Maharaja Holkar of Indore.

147. The claim for consideration in this case is based on the wording of the treaty of Mandesaur, concluded in 1818 after the complete defeat of the Holkar army at the battle of Mahidpur. None of the Mahratta Powers had offered a more stubborn resistance to the East India Company, and it was not to be expected that in the matter of annexations and confiscations, the terms of settlement would be lenient. In all, cessions of tributes and lands yielding a total revenue of Rs. 12,18,000 were demanded as the price of peace and accepted by the plenipotentiary of the Darbar. Articles 3, 4, 5 and 6 of the treaty are concerned with the cessions. Article 7 runs as follows :—

“ In consideration of the cessions made by this treaty, the British Government binds itself to supply a field force to maintain the internal tranquillity of the territories of Mulhar Rao Holkar and to defend them from foreign enemies ; this force shall be of such strength as shall be judged adequate to the object. It shall be stationed where the British Government determines to be best, and the Maharaja Mulhar Rao Holkar agrees to grant some place of security as a depot for its stores.”

148. Doubt has arisen as to the exact meaning of the words “ In consideration of the cessions.” It has been argued that the circumstances in which this treaty was concluded were similar to those leading up to the treaty of Sarji Anjangaon in 1803 with Scindia ; that the same interpretation may be applied to both the treaties, and that it may be presumed that the cessions were in the nature of annexations and not in any way a *quid pro quo* for the force to be maintained for the Ruler's protection. We fully appreciate the similarity of the circumstances attending the conclusion of the two treaties ; but we cannot ignore the words used in article 7 of the treaty of Mandesaur. The phrase “ in consideration of the cessions ” is not found in the treaty of Sarji Anjangaon. It is a cardinal rule for the interpretation of written agreements that the parties are bound by the language which they have thought fit to employ, if this language is plain and unambiguous ; and where there is an ambiguity the agreement is to be construed *fortius contra proferentem*. In these circumstances, even if there were an ambiguity in article 7 of the treaty of 1818, which we are not disposed to admit, we should feel bound to accept the arguments of the Indore Government and to regard the cession of territory in this case as in return for specific military guarantees. On the other hand, while the Indore cessions may be regarded as having been made in consideration of a military force, and therefore of the type which we are directed to examine, we must draw a distinction between this cession and those made, for instance, by Hyderabad in 1800, or by Baroda in 1818. These latter States were allies of long standing, and there was no idea of taking more territory from either than would cover the cost of a specific military force. In the treaty of Mandesaur there is no such direct correspondence between the cost of the force to be maintained and the value of the territory to be ceded. There is not even a clause such as article 8 of the Gwalior treaty of 1860, under which it was stipulated that the subsidiary force was to cost not less than Rs. 16 lakhs per annum.

On the contrary, it was left open to the Company to fix the strength of the Indore subsidiary force from time to time so long as the force was sufficient for the object in view, and it is obvious that with the advent of internal peace the necessity for a strong subsidiary force no longer exists.

149. We do not consider, therefore, that the extinction of the special obligation in the matter of a subsidiary force and the entry of the State into Federation as one of a number of units contributing on a uniform basis towards federal resources involves a financial adjustment under which the value of the territories is the first, or even a relevant consideration. In these circumstances we have thought it unnecessary to attempt any exact valuation of the Indore cessions.

150. We have accordingly to arrive at a financial adjustment, if this is possible, on some other basis. Satisfactory data are entirely lacking. But the fact remains that the British Government is still under the obligation to maintain a subsidiary force, however attenuated in numbers, as the territories and tributes were ceded as consideration for this undertaking, and, till the obligation is liquidated, the Holkar State cannot be expected to contribute to defence on the same basis as the other units of the Federation. The only indication which we can discover as a guide in this case is derived from article 11 of the treaty of Mandesaur. By that article the Maharaja was required to maintain not less than 3,000 horse to co-operate with the Company's troops. As always happened, this local force had to be replaced by a contingent trained and officered by the Company, for the maintenance of which the Holkar Government had to pay an annual subvention of Rs. 1,11,214. The financial adjustment in regard to this item is dealt with in Chapter III and in Class (2) of Appendix III to our Report. For the present purposes we have this one figure on which to base some estimate of the adjustment to be made on account of the subsidiary force.

151. In the absence of all other data, we consider that, as the Maharaja was permitted to commute his obligation to maintain 3,000 horse for a sum of Rs. 1,11,214 per annum, the Central Government may well agree to commute its obligations in the matter of maintaining a subsidiary force for the same sum, and we recommend a financial adjustment based on an annuity of Rs. 1,11,214.

#### (5) Territories ceded by the Chief of Sangli.

152. The Rulers of Sangli represent the senior branch of the Patwardhan family which rose to distinction in the Southern Mahratta Country in the latter half of the 18th century, and the ceded areas form part of territories originally assigned to the family by the Peshwa, then the *de facto* head of the Mahratta Confederacy, in return for the maintenance and provision of troops.

153. When the second Mahratta War broke out in 1803, the British found the Patwardhans in a position of practical independence,



and, though the military obligations still existed, they were only rendered when the Chiefs thought fit. On occasions they even raided the Peshwa's districts. In this war they rendered material assistance to the British forces. Later, by the agreement of Pandarpur in 1812, peace was made between the Patwardhans and the Peshwas. But, on the outbreak of the third and last Mahratta War of 1818, they were detached from their nominal suzerain and thereafter threw in their lot with the British.

154. On the downfall of the Peshwa the Patwardhan Chiefs were called on to render to the British the service attached to their tenure under the Mahratta Government, and, finally, in 1820, after reduction had been made in the number of horse to be furnished by the family, the ruler of Sangli was allowed the option of **compounding** the service either in cash or by assignment of territory. He chose the latter alternative, while his brother Patwardhan chiefs elected to continue to furnish their quota of horse on the new scale, a liability which was commuted for a relatively light money payment in 1848.

155. It is possible to take the view that this cession is not within the Terms of Reference of our Committee. It is certainly not a cession in return for any specific military guarantee. It may also be argued that the tenure of the Chief of Sangli was that of a jagirdar and dependent on the rendering of the stipulated service. But whatever may have been the relation of the Chief of Sangli to the Peshwa, we find that he had achieved a status beyond that of a jagirdar when his connection with the East India Company began. He was treated by them as a Ruler and ally in the course of the war which ended the Mahratta power, and has enjoyed this status ever since.

156. We find that there is no real distinction between the Sangli cessions, made in commutation of military services, and those made by other States in lieu of a contingent force. The case is one which illustrates the statement at the beginning of this Chapter that it was often a matter of chance whether a State paid tribute or ceded territory. At any rate, the case is in its origin one of the clearest instances of the rendering of military service of a feudal character, and we hold that, even if this cession does not come within the exact Terms of Reference, we are fully entitled, under the last paragraph of our instructions, to deal with it here and to make recommendations accordingly.

157. The cessions lie in the Dharwar, Belgaum and Bijapur districts in the Bombay Presidency. Their identification has in most cases presented no serious difficulties, and has been satisfactorily accomplished. They are as follows :—

*Cessions in the Dharwar district.*

(a) Pargana New Hubli	..	..	47 villages.
(b) Pargana Turus	..	..	50 "
(c) Pargana Bumegutta	..	..	11 "
(d) Sardeshghat of Gopunkop	..	..	5 "



158. In 1820, the cessions were described as follows :—

**Abstract Statement of the Revenues of the Districts finally ceded from the Jaghir of Chintamun Rao Appa Saheb, Chief of Sangli, to the British Government in June, 1821, and attached to the Dharwar Col-  
lectorate to make good the annual sum of Rs. 1,35,000, net produce, in lieu of the service of his  
quota of horse.**

No.	District.	No. of Villages, Mouzas.	Gross produce.	Deductions.			Remains, net produce.
				District Establish- ment, etc., charges.	Warsasun, nemnook, etc., etc.	Total Deductions.	
			Rs.	Rs.	Rs.	Rs.	Rs.
1	Pergunnah New Hooblee ..	41	69,771 15	4,547 7½	3,181 3	7,728 10½	62,049 4¼
2	Pergunnah Turus ..	46	41,049 10½	2,536 6¼	2,975 9	5,511 15¾	35,537 10¼
3	Pergunnah Burdal ..	16	7,656 2½	392 15½	—	392 15½	7,263 3
4	Pergunnah Bumegutta ..	11	9,115 8¼	591 0¼	38 2½	629 2¾	8,486 5½
5	Sirdeshgut of Gopunkop ..	5	14,428 3¼	935 11¼	517 9½	1,453 4¾	12,974 14½
6	In the Pergunnah of Shapore ..	6	9,321 10¼	633 0¾	—	633 0¾	8,688 9½
	Total ..	125	1,51,349 0¾	9,636 9¾	6,712 8	16,349 1¾	1,35,000 0

159. The Darbar claims that the cession of the Sardeshghat of Gopunkop was not a cession of five villages. The villages, in fact, did not belong to the Chief of Sangli, and what was ceded was his right to certain revenues and "haks" attached to those villages, amounting at the time of cession to Rs. 12,974-14-8. That this was the nature of this cession is confirmed by the Special Committee; but, on the ground that the Chief's rights must have "embraced practically the entire revenue," they have merged the revenue and expenditure of these five villages with the remaining cessions in the Dharwar district. In view of the fact that there was no cession of sovereignty we accept the Darbar's contention, and propose to treat this item as an assignment of cash or tribute. We have no satisfactory material for assessing the present value of these rights, and have therefore taken the figure of Rs. 12,974-14-8, which is the actual figure in the Darbar's claim. The enhancement of value during the last 100 years could not in any case have been considerable. The Darbar makes a similar claim in regard to cessions under the head "Pargana of Burdol." Here again the transfer was not of sovereignty, which the Chief never enjoyed, but a share in the revenue of 13 (not 16) villages, his share in 3 of the 16 villages having been assigned by him to a third party. The Special Committee confirms this contention, and declares the present value of this share to be worth Rs. 11,600, as against Rs. 10,937-8-0, the value at the time of cession. Thus we find that of the above cessions a sum of Rs. 24,574-14-8 must be treated as an assignment of cash or tribute analogous to that paid by the other Patwardham Chiefs.

160. The territories have been valued by the Special Committee on the usual lines. The final result of their valuation is shown below :—

Provincial.				Central.		
				Direct.	Indirect.	Total.
Revenue	..	..	2,87,400	3,900	48,900	52,800
Expenditure	..	..	2,67,900	3,200	1,900	5,100
Surplus	..	..	19,500	700	47,000	47,700

161. It is obvious that, by our decision to treat a sum of Rs. 24,574-14-8 as a cash tribute, the surplus under the head "provincial" is converted into a deficit. Even if the direct taxes amounting to Rs. 700, which would accrue to the Darbar in the event of retrocession, are treated as a credit, there still remains a deficit as a basis for financial adjustment. The question therefore arises whether the Chief of Sangli should receive any compensation for his ceded territories or not. We fully realise that in this case there is no obligation on the British Government to maintain a specific military force in return for ceded territory. But, in view of the treatment of the other Chiefs of the family and the considerations which we have brought to notice with regard to the valuation

generally, we hold that this is a case for special treatment. We have recommended that his brother Chiefs should all be relieved of their obligations to pay tribute, and, if the Chief of Sangli receives no compensation for his ceded territories, he will be in the unfortunate position of having parted with a number of villages while his relatives have preserved their territories intact and have at the same time been relieved of all obligations. The Chief of Sangli has asked for the restoration of the territory transferred on the grounds that it forms an integral part of the State, that its inhabitants have affinities with the residents of the State based on similarity of traditions and historical antecedents, and that the standard of his administration is such as to command confidence. It is outside our Terms of Reference to make any recommendation in this direction. But we desire to place on record our opinion that this is a case which might be specially considered.

162. Assuming that territorial retrocession is impossible, we have to consider what financial adjustment, if any, should be made for loss of territory. In 1820, the Chief of Sangli parted with villages and cash assignments of the total net value of Rs. 1,35,000, and we now recommend that the same principle be applied in his case as in the case of Baroda, namely, that the valuation at the date of cession be taken as the basis for financial adjustment, as follows :—

		Rs.
Cash assignments .. .. .	..	24,575
Adjustment for ceded territories ..	..	1,10,425
Total ..	..	1,35,000

#### Tabular statement of financial adjustments proposed.

163. Excluding cash contributions and tributes, our recommendations in regard to ceded territories are summarised below, in lakhs of rupees.

State.	Estimated value in treaty of cession.	Present Central Revenue. (Gross).	Provincial.		Annual compensatory credits recommended.
			Present Revenue.	Expenditure.	
Hyderabad ..	71.81	63.52	183.4	173.32	Nil.
Baroda ..	22.98	47.91	56.11	68.91	22.98
Gwalior ..	10.03	30.26	51.55	58.21	11.78
Sangli ..	(See paras. 1.10	147-151 of 40	foregoing 2.76	Chapter) 2.57	1.11 1.10

#### Method of giving effect to proposed credits.

164. In view of the analogy between ceded territories and tributes—even if for the reasons set forth in paragraph 39 the analogy is incomplete—we consider that the payment of annuities in respect of the former should proceed *pari passu* with the remission of the

latter. In the case of ceded territories, however, there is no necessity for any immediate payment prior to Federation corresponding to the proposed remission of all tributes in excess of five per cent. of total revenue. Payment should begin only after a State's entry into Federation, when it should receive a proportion of the annuity or its capitalized value corresponding to the share of the income tax retained by the provinces of British India. For instance if, as envisaged by Lord Eustace Percy's Committee, the provinces are to retain at the outset approximately five-thirteenthths of the proceeds of the income tax, we recommend that payments to the States on account of ceded territories should in the same way be limited to five-thirteenthths of the total sum to which they are entitled. With every diminution of the share of income tax payable by the provinces to the Federal Government there would be a corresponding increase in the amount payable to the States for ceded territories. Finally, though in the case of tributes we have recommended that a moiety at least be remitted in ten years and the remainder within twenty years, we see no necessity to make any corresponding recommendation in the case of payments on account of ceded territories.

### Summary of Conclusions and Recommendations.

We have, in accordance with our Terms of Reference, taken into consideration only territories ceded by States in return for specific military guarantees, and cases of cessions *ejusdem generis* (para. 91).

We have found certain cessions of territory by Hyderabad, Baroda, Gwalior, Indore and Sangli to be within our Terms of Reference, and have identified the territories in each case except that of Indore, where, for reasons which we explain, identification is unnecessary (paras. 107, 122, 141, 148, 157—159).

We have considered the valuation placed upon these territories by the Special Committee appointed for the purpose by the Government of India, but we have been unable to use the results (paras. 100—101).

We have considered alternative methods of valuation suggested by the States, but have been unable to accept them (paras. 102—104).

We adopt, with certain modifications, the net value at the date of cession as the basis of our recommendations (para. 105).

After giving an account of the history of the cessions which have been made by the above five States, we recommend that the following annual credits be allowed in respect of the territory ceded by the undermentioned States :—

#### *Rs. in lakhs.*

Baroda	..	..	..	22.98 (para. 132).
Gwalior	..	..	..	11.78 (para. 146).
Indore	..	..	..	1.11 (para. 151).
Sangli	..	..	..	1.10 (para. 162).

In the case of Hyderabad we recommend no such credit, as the State has asked that the military guarantee for which it ceded territory may instead continue in being (paragraph 116).

We recommend that the annual credits which we have proposed should become effective in the adjustments with the States in question *pari passu* with the reduction of the contributions to be paid by the provinces to Federal revenues (paragraph 164).



## CHAPTER V.—MISCELLANEOUS CONTRIBUTIONS.

**Introductory.**

165. In Chapter III we have discussed Cash Contributions and in Chapter IV we have assigned cash values to the contributions made by certain States in the past by cession of their territories. In this Chapter we deal with other contributions which the States claim to be making towards the resources of India, whether indirectly or in kind.

166. For the reasons given in paragraph 11 we have been unable to consider all the claims of States which have been brought to our notice. Our Terms of Reference, however, permit us to take into account facts in the financial or contractual relations between the States and the British Government in India which though not specifically mentioned have so close a bearing upon the matter remitted to us that they cannot in our view be disregarded. Under this head we have decided to confine our attention to the following :—

- (i) Indian States Forces ;
- (ii) claims arising out of railway lands ;
- (iii) claims arising out of cantonments and civil stations ;
- (iv) claims arising out of existing arrangements in regard to certain excisable commodities ;
- (v) claims arising out of " lapsed inams " and similar cash payments in the Bombay Presidency ; and
- (vi) claims in regard to other miscellaneous cash contributions.

**(i) Indian States Forces.**

167. To secure the co-operation of troops from Indian States with British Forces in India was an early feature of the policy of the Company. Apart from provisions in treaties with Hyderabad, Gwalior, Travancore, Mysore, Baroda and the Peshwa, negotiated at the end of the 18th and the beginning of the 19th centuries, whereby these States undertook to supply specific contingents of their own troops to act in co-operation with a British subsidiary force, there are provisions in several other treaties and sanads for troops of Indian States to be supplied on the requisition of the British Government according to the means of the Rulers. But, apart from any treaty provisions, unstinted military co-operation has always been forthcoming from Indian States in time of war when desired by the British Government. There are records of fine services having been performed by States troops in the Gurkha War, the first and second Afghan Wars, the first and second Sikh Wars and the Mutiny, as well as in certain frontier expeditions, before the desirability of establishing a special organization of Indian States troops for this purpose became evident.

168. The importance of such an organization was realised between the years 1880 and 1887, when relations between England and Russia were strained almost to breaking point owing to a series of incidents on the Afghan frontier. As the result of the numerous offers of money and services made by Indian Rulers, the Government of India took steps to ascertain the number and efficiency of the troops which the States could maintain and to consider what ought to be their armament, training and inspection. In 1888 the Viceroy, Lord Dufferin, announced that the British Government proposed to invite Princes whose troops were of good fighting material to raise them to such a standard of general efficiency as would fit them to serve in action side by side with Her Majesty's Forces; it would be for the Government of India to select the troops to be utilised in this manner; help would be given to them in the attainment of the efficiency desired, but they would still remain on the footing of States Forces.

169. The Viceroy's proposal elicited definite offers of military aid from a number of States. The title given to the troops organised in response to this invitation was "Imperial Service Troops." A brigade was employed in China in 1903, and the services they more recently rendered in the Great War are fresh in the memories of all.

170. War service revealed certain military defects in regard to the organization, etc., of the Imperial Service Troops, which were discussed after the Great War with certain of the leading Princes. As a result, the Imperial Service Troops were re-organized under the present title of "Indian States Forces."

These Forces are divided into the following categories :—

*Class A.*—Units with establishment, organization, arms and equipment the same as for corresponding units of the Indian Army and for whom arms are initially issued free of charge by the Indian Government ;

*Class B.*—Units not organized or armed on the lines of Indian Army establishments, but which are intended to be fit to reinforce Class A troops or for employment as second line troops ;

*Class C.*—Formations not permanently embodied.

171. Only the units in Class A can be regarded as fit for active service. Of these, certain units are designated for service on mobilization in various formations of the Indian Army. Though a place has been assigned to these units in the mobilization scheme, there is no positive obligation on the part of States to release them for service, and thus no certainty that they will be available and that their place in the field may not have to be filled by regular units. In peace time Indian States Forces are not ordinarily embodied for training and discipline in formations of the British Army in India, though many units conveniently situated do carry out their annual camp training with them. Many of these Forces are localized in the States for the performance of guard, ceremonial and other duties and cannot, like units of the Indian Army, be transferred to garrison

frontier outposts and there gain the experience so essential for frontier warfare. Units of Indian States Forces are, therefore, not interchangeable with units of the Indian Army.

172. The strength return dated 1st April, 1931, of Classes A and B of the Indian States Forces provided by 49 States, shows :—

Authorized strength .. ..	43,912
Effective strength .. ..	37,622

The amount actually expended by the States on their forces was investigated in 1930 by the Special Committee, which reported the total expenditure by the States on maintenance of Classes A and B to be over Rs. 2 crores. This figure, however, is not one which we can use for any purposes of financial adjustment. In the first place, it takes no account of the considerable expenditure incurred by the Government of India on the supply of arms and provision of military advisers in the States. Moreover, it does not necessarily follow that the money expended by a State upon its troops ensures the attainment of a level of efficiency which would satisfy the tests of the military authorities responsible for the defence of India. Again, the Federal Government might not be able to afford the additional military expenditure represented by the cost of the Forces in question, however, efficient they might be, and this was no doubt one of the reasons which led the Federal Finance Sub-Committee (see Appendix I of our Report) to recommend that a financial adjustment in the case of the Indian States Forces should be deferred for discussion after Federation.

173. In view of the recommendations of the Sub-Committee, we do not propose to attempt to translate into a money equivalent the value to be attached to the military contributions of the Indian States, though, to give some idea of the magnitude of the financial factor involved in the case of an individual State, the claim under this head of the Gwalior Darbar amounts to no less than Rs. 40 lakhs annually. But their past history enables us to appreciate the valuable assistance in times of emergency which these Forces have rendered ; and a considerable stretch of the northern frontier of India is now garrisoned by Kashmir State Forces. We also recognize that they assist the Paramount Power to fulfil its obligations in regard to security in State territory. We consider that the existence, strength and efficiency of these Forces cannot be ignored.

#### (ii) Claims arising out of Railway Lands.

174. The railways which traverse Indian State territory may be divided as regards ownership into three classes, viz. :—

- (1) those owned by the Government of India ;
- (2) those owned by railway companies ;
- (3) those owned by the States.

In some cases ownership is vested in a State but the line is worked by a Company on the State's behalf.

### Cession of Jurisdiction.

175. The land on which railways in class (1) and (2) were constructed was till very recently given freely and unconditionally by the States. Sovereignty over the land remains with them, but in almost all cases jurisdiction has been ceded to the British Government over the land required for the track itself and for all railway purposes. The cession has usually been expressed in the following formula :—

“ I....hereby cede to the British Government full and exclusive power and jurisdiction of every kind over the lands in the State which are, or may hereafter be, occupied by the ....Railway (including all lands occupied for stations, for outbuildings and for other railway purposes), and over all persons and things whatsoever within the said land.”

The interests of India as a whole clearly demand uniformity of law and continuity of jurisdiction. If every State exercised jurisdiction on the main line between Delhi and Bombay, a train would encounter no less than thirty-eight changes of jurisdiction during the course of its journey.

176. Many States have submitted that full jurisdiction should be restored to them on certain of these railways and civil jurisdiction on others. Into that claim we are not required to enter, our concern being with the economic and financial effects which have been represented to us as the outcome of these cessions ; but we have assumed that for a long time there will be areas of ceded jurisdiction in States, and it is from this standpoint that we have to consider their claims.

177. The circumstances in which these claims arise are common to numerous States which gave land for railway construction or have ceded jurisdiction over such lands where the railways are their own property. As what we have to say on the subject applies to all, we have considered it unnecessary to specify individually the States affected. Our recommendations are intended to bring about a situation in which there would be no longer any legitimate ground for a State which has ceded jurisdiction over railway lands to claim that the prejudice to its fiscal interests by the cession is such as to constitute an indirect contribution to Federal Revenues.

### **Claim to share profits of railways in States or to purchase them and appropriate net profits.**

178. Some States claim to share the profits of railways traversing State territory or to purchase the lines and appropriate the net profits. This claim is supported by reference to the fact that the land originally acquired for railway construction was granted by the States free of cost. Where such grants were unconditional, there is clearly no valid ground for claiming now a share in the profits of the railways concerned or an option to purchase the railways and appropriate their net profits. There may, we know, be one or two cases in which such claims are based on more solid ground. We have been unable in the time at our disposal to investigate individual



claims, and we consider the ordinary machinery of Government adequate for such purpose.

**Claim that cession of jurisdiction over railway lands was not intended to include fiscal jurisdiction.**

179. It has been represented by the States generally that the cession of jurisdiction over railway lands has involved fiscal consequences which were not contemplated at the time of cession. The Government of India has expressly disclaimed any right to exploit these areas for fiscal purposes, and, though this announcement may not yet have been translated into practice in every case, we assume that the grievance will be remedied before very long. The loss of revenue which the States attribute to the system under which jurisdiction is exercised by the Government of India falls under three heads, (a) immunity from State income tax (where levied) of persons residing and profits accruing within railway limits; (b) immunity from State customs tariff, especially in the case of trading concerns, such as co-operative stores, whereby these are able to compete on unfair terms with concerns outside the railway boundary; (c) loss of revenue from excisable articles sold within railway limits.

#### **Immunity from Income Tax.**

180. As regards (a), State income tax, we consider that the States which levy income tax have a grievance which should in equity be removed, and our recommendations are as follows :—

*Railway Employees* resident in State territory should be subject to State income tax, if any. This would involve some amendment of the existing income tax law in British India, but we note that distribution of income tax in British India on the basis of residence has been recommended in paragraphs 69—70 of the Report of Lord Eustace Percy's Federal Finance Committee.

*Federal Railways* should undoubtedly be exempt from tax in the same way as all federal property.

*Railway Companies* should pay State income tax, where such tax exists, on the basis of the proportion of their mileage in State territory to their whole system or on such other system of apportionment as may be found practicable and equitable.

#### **Immunity from State Customs Tariff.**

181. As regards (b), State customs tariff, we understand that facilities have already been accorded by the railway authorities to certain States to collect their customs duties within railway lands on goods imported for consumption as distinct from goods in transit. We consider that steps should be taken to remove the grievance of other States in this matter.



### **Immunity from State Excise.**

182. As regards (c), State excise, we understand that some States are already paid the excise fees at British rates on articles sold in railway restaurants within their limits. We see no reason why this practice should not be applied generally, but we recommend that the rates of excise charged and paid to each State should be those in force in that State.

### **(iii) Claims arising out of Civil Stations and Cantonments in Indian States.**

183. Ordinarily, or with very few exceptions, the immediate area in which the residence of the representative of the British Government in State territory is situated is by long convention immune from the State's jurisdiction. The claims which we have now to consider arise from the existence in certain States of :—

(a) *Civil Stations*, that is to say certain areas in the neighbourhood of the Residency, which many States represent to be more extensive than seems necessary under present conditions.

(b) *Cantonment* areas, that is to say, land set apart for the use and accommodation of His Majesty's Forces quartered within the State.

The areas in which Residencies are situated have in most cases been provided free by the States concerned. Civil stations and cantonments are in some cases leased in perpetuity on an annual payment to the State, in others they are provided free of charge. The claims which have been preferred by the States before our Committee embrace the questions whether these areas should be retained at all, whether the conditions of the leases are fair, and whether the persons resident within the areas should be immune from State taxation, so long as the State is denied any share in the proceeds of taxation realised by the cantonment or station authorities. Some States have also raised the question whether the lessee is at liberty to dispose of land within the leased area at a profit for building and similar purposes.

### **Retention of civil stations and cantonments and terms of leases.**

184. The retention of cantonments for His Majesty's Forces is in many cases a military necessity as well as a treaty obligation. There may, however, be cases where the retrocession of such areas in whole or in part is in the interests both of the State and of the Federal Government. This is a matter of policy with which we are not directly concerned. We have therefore no recommendations to make for the retrocession of these areas or for the revision of their leases on terms more favourable to the States ; but we consider that no demands should be made for increase of rent, save in very exceptional circumstances, in view of the common purpose which every cantonment serves.

185. The retention of civil stations is on a somewhat different footing. Originally these stations were bazaars for the supply of provisions for the Resident's civil staff and military escort ; there was always, in the early days of our occupation, the danger of friction with local firebrands and fanatics, or even of deliberate interruption of supplies, if the Residency staff had recourse to the ordinary bazaars. Times have changed, and there is seldom any necessity for this policy of segregation, a fact which has been recognised by the retrocession of jurisdiction in the case of the Hyderabad and Indore bazaars. We consider that, in most cases, it would suffice if the area of foreign jurisdiction were confined to the Residency itself and the buildings under the Resident's control. Our only recommendation is that, when the continued retention of any civil stations beyond these limits is regarded as essential on political grounds, the conditions of the lease should be subject to periodical examination.

186. Bangalore in the Mysore State is described by the hybrid title of a Civil and Military Station. Here there is a special arrangement of recent date under which all revenues of the station above an agreed figure are made over to the Mysore Government. It is a question whether the financial grievances which have been brought to our notice by that Government can be remedied satisfactorily under the existing arrangement or a modification of it, or whether there is any case for partial retrocession of the area. In view of the fact that this is a military as well as a civil station we are unable to make any recommendation on this particular point. Other recommendations which we have to make under the head of cantonments may be taken to apply to Bangalore.

#### **Right to proceeds of taxation within the limits of civil stations and cantonments.**

187. The attitude of all the States in the matter of their right to levy or to receive the proceeds of taxation in civil stations and cantonments is not the same. When the right to receive the proceeds of a particular tax has not been renounced, as, for instance, excise in the cantonment of Secunderabad in Hyderabad State, the State's claim as a rule embraces the right to collect :—

- (a) Income Tax (where this is a State tax) ;
- (b) Inland Customs Duty ; and
- (c) Excise.

188. We believe that in the case of the more advanced States there is no practical objection to the exercise of fiscal authority by a Darbar within cantonment limits, provided that proper provision is made for the exemption of the purely military population and for the avoidance of double taxation under such heads as income tax. In fact, in Secunderabad not only does the Nizam's Government administer and collect the excise duties for the benefit of the cantonment, but it also collects and appropriates inland customs duty. We believe, however, that if a State were to appropriate all revenues other than municipal the proper administration of cantonments would become impossible for lack of funds. It is customary

throughout India for provincial Governments to supplement the municipal revenues by grants in aid towards the cost of various services in urban areas, and the payment of excise duties by the Hyderabad State to the Secunderabad Cantonment Fund is an instance of the application of this principle to cantonments in States. We suggest therefore that where jurisdiction is retained, whether in a civil station or in a cantonment, there should be an agreed financial settlement, and that any surplus above reasonable local requirements should be appropriated for the State in whose territory the area is situated. We consider that our recommendations offer a better solution of the difficulties to which we have drawn attention than any attempt to place a cash value on the indirect contribution which the States affected claim to be making in respect of civil stations and cantonments located in their territory, and for this reason we do not suggest that there are any claims on this account which should rank for financial adjustment under our Terms of Reference.

**(iv) Claims arising out of existing arrangements in regard to certain excisable commodities.**

189. It has been urged by many States, particularly those in relations with local Governments of British Indian provinces, that their legitimate revenues in the sphere of excise are injuriously affected by arrangements imposed upon them in the interests of a neighbouring province. These grievances relate only to articles, i.e., liquor, opium and hemp drugs, the taxation of which is, and will presumably remain, within the sphere of the provincial administrations. If, therefore, the States concerned are found to be foregoing under existing arrangements the proceeds of taxation paid by their subjects, the resultant gain is to the local Government concerned and not to the Government of India. Nevertheless the principle underlying these grievances has a definite relation to Federation, inasmuch as it is *prima facie* unjustifiable and undesirable that one federal unit should levy taxation upon another, and we therefore feel it incumbent upon us briefly to review the situation as we see it.

190. The grievances of the States are two-fold ; that excise rights leased in the past by States to a local Government are being diminished in value owing to that Government adopting a policy of which the aim is admittedly prohibition ; and that certain excisable articles, particularly opium, cannot be obtained by the States except from the local Government, and that the latter, instead of supplying them at cost price, appropriate to their own revenues a considerable part of the excise duty for the time being in force.

191. The first category calls for little comment from us inasmuch as it is impossible to uphold the imposition upon a State of a self-denying policy adopted at the instigation of a legislature possessing no authority in that State. We understand that the situation in this respect has, during the last few years, engaged the careful attention of the provincial Government chiefly concerned and that in several instances agreements have been cancelled and the *status quo* restored.

192. In regard to the second category of grievances, we should like to see effect given to the general principle that, in respect of all provincial excises, the proceeds of the whole of such taxation should accrue to the administrative unit within whose territories the taxed articles are consumed. There may be cases in which it is necessary that the provincial Government should be the supplying authority and in which compliance with indents should be limited to an amount representing the reasonable requirements of the State concerned. But it does not appear to us that such considerations can justify or necessitate the retention by a provincial Government of any part of the excise duty in addition to a fair cost price including overhead charges. We observe that this principle has already been admitted by the Government of India in respect of *charas*, a hemp drug imported from Central Asia and issued to States and other local Governments from warehouses situated in the Punjab. Until recently the Punjab Government appropriated the whole duty on issues of this drug to Indian States, but the Government of India has now introduced arrangements under which such duty is refunded to the States concerned.

193. We have, for reasons explained above, referred to these grievances, and have indicated our views regarding them. We have no further recommendations of a financial nature to make in respect of them. They obviously raise no questions of either contributions or immunities of the nature of those on which we have been specifically required to advise.

#### (v) *Kadim Inams.*

194. We have received a number of claims from States situated in the southern part of the Bombay Presidency arising out of the rights of the Government of that Presidency in what are known as *kadim inams* and other ancient grants. The term indicates a grant of revenue, charged on lands or villages in the State, made by the suzerain power of the time—in this case the Peshwa—before the territory out of which the grant issued had been constituted a State.

195. As the State was constituted subject to the burden of the *kadim inam*, it was long held that the latter on its lapse or escheat reverted to the original grantor or his successors, and not to the State on whose territory it is charged. It would appear that, as a matter of grace and not of right, the States have in most cases been allowed the benefit of such lapses and escheats, but the application in earlier times of the doctrine of the reversionary right of the suzerain power has resulted in certain revenue, which would normally go to the States, accruing to the Government of Bombay.

196. The States claim that with federation the doctrine should be abandoned in theory as well as in practice, and that the revenues drawn from their lands or villages under its former application should no longer be paid to a British Indian province, but should revert to themselves. With the general principle we are in agreement, and if the right of lapse or escheat is no longer to be exercised we think it might well be formally abrogated.



197. The claim for the remission of the payments already in force demands further consideration. We find that in certain neighbouring districts of the Bombay Presidency the situation is reversed, and that States are in receipt of cash grants of similar nature at the expense of provincial revenues. While we fully agree that payments of the nature of *kadim inams* are undesirable under Federation, it is impossible to advocate a one-sided remission at the expense of the province alone. We therefore suggest that, where these revenues are received from and paid to the same State, one should be set off against the other, and that where there is a balance or where there is no such set-off, the rights should be bought out. The capitalised sums due to the province will help to meet those due from it. If, as is likely, there are cases where it is found more convenient in present financial circumstances not to pay the capitalised value of the amounts at once, a series of equated payments spread over, say, the 20 years which we have advised as the maximum period within which tributes should be extinguished, would afford a means of bringing about their extinction without throwing any substantial burden on either the States or the province.

198. In any event we do not hold that these payments raise any difficulty as regards the federal scheme. In the first place they are in respect of rights held ordinarily by individuals and do not imply any subordination either of the State or of the province from whose lands they are drawn, and, secondly, they are of relatively small amount and number, and affect only the relations of one unit of the Federation with another and not with the Federation as a whole.

199. While, therefore, we hold that such payments between units of a Federation would be anomalous and should disappear as speedily as possible, we do not consider that they are cash contributions of the kind within the meaning of our Terms of Reference.

**(vi) Claims in regard to other miscellaneous cash contributions.**

200. In paragraph 34 we explained that the cash contributions which were reviewed in Chapter III were those commonly described as tributes. The States, however, make other cash contributions to the British Government which cannot be so classified. We have already mentioned the special case of *kadim inams*. The other payments which have come to our notice do not seem to us to require to be scheduled as they are in return for specific services rendered locally, are for the most part voluntary, and represent either the equivalent of or a contribution towards the actual cost of the services in question. Among these payments, which are most commonly found in the Central India, Western India, and various Bombay Agencies, are subventions towards the upkeep of roads and voluntary payments towards the upkeep of Agency hospitals and dispensaries. The question whether payments of this character should continue under Federation is one primarily for

local consideration, seeing that the objects which they maintain serve local needs. Some States have represented to us that these payments should be taken into account in the financial adjustment to be made with them on their entry into Federation, but we are unable to accept this contention, as the payments appear to be entirely outside the federal sphere.

201. Separate mention must be made of the contributions paid by numerous States and Estates in the Western India States Agency and in the Rewa Kantha and Mahi Kantha Agencies under the Bombay Government for the administrative charges of the Agency Thana circles. Owing to their small size and meagre revenues, numerous States and Estates in these Agencies have for many years been grouped together for the purpose of joint administration under officers appointed by the Government of India. The present system grew out of the intervention of the Company's Government necessitated by the state of anarchy which prevailed in this area at the beginning of the 19th century, the first stage of which was the settlement of the tributes due to the Company, and to Baroda and other States. The next stage was the institution of criminal courts and a police organization, a measure to which the Company was forced on account of the insecurity of roads and continued disorder in areas where the jurisdiction of individual Chiefs and Chieftains often extended over a few acres only. Later came the introduction of civil courts, and, later still, the creation of common services for such purposes as education, health and agriculture. This joint administration is organized under separate Thanas, a word originally applied to the military posts established by the Moghuls and Mahrattas to protect the country, preserve peace and aid in collecting revenue. Its cost is met mainly from contributions obtained from the States and Estates comprised in each Thana circle, assessed in accordance with their respective revenues, which are in many cases exiguous; also, in respect of police administration, from the payment of Rs. 3½ lakhs made by Baroda [see Appendix III, Class (5)], any deficit being made good from central revenues, which also meet the cost of the political Agencies by which the Thanas are supervised.

202. Although the contributions received from States and Estates for Thana administration are not voluntary, they appear to differ in character from the contributions towards local corps discussed in para. 73 and detailed in Appendix III, Class (5), since the States who contribute towards the maintenance of local corps are represented to be able themselves to furnish alternative means of maintaining internal security, whereas the Thana administration is necessitated by the fact that the States and Estates affected have wholly insufficient resources to provide an adequate administration. For this reason we do not recommend any change in the present system whereby these States and Estates are required to contribute in accordance with their means towards those heads of expenditure which represent the joint services which it has been found necessary to provide on their behalf.

### Summary of Conclusions and Recommendations.

Our conclusions and recommendations are :—

In regard to :

(i) Indian States Forces, that the financial adjustment should be deferred until after Federation (para. 173) ;

and in regard to :

(ii) railway lands ; (iii) cantonments and civil stations ;

(iv) excisable commodities ; and (v) "lapsed inams" and similar cash payments in the Bombay Presidency, and the grievances at present felt by the States can be removed by the specific measures which we have suggested and that thereby all claims under these heads can be disposed of without any financial adjustment as regards federal revenues (paras. 174-199) ;

and in regard to :

(vi) other miscellaneous cash payments (towards maintenance of roads, medical relief and Thana administration), that these raise no financial question affecting Federation (paras. 200-202).

We have not therefore placed a cash value for the purposes of financial adjustment on any of the various contributions which the States claim to be making under the above heads.

## CHAPTER VI.—SALT.

## Introductory.

203. Our Terms of Reference directed us to examine (*inter alia*) the varying measures of privileges or immunity enjoyed by certain States in respect of Salt, to investigate the position in each State with a view to determining the value of the ascertained existing rights in respect of these privileges and immunities, and to express an opinion as to what compensation it would be worth while for the Federal Government to offer in return for the relinquishment of the special privileges which each State now enjoys, or such modification thereof as may appear to us to be an essential preliminary to Federation. This task we endeavour to perform in this Chapter.

204. The importance of salt to India both as an article of consumption and as a source of revenue is best illustrated by the following facts and figures. The normal demand of India (excluding Burma, and also excluding Kathiawar and Cutch, which are not supplied from sources under British-Indian control), is approximately 1,900,000 tons per annum, or an average of about 12 lbs. per head of the population. Of this great quantity the returns for 1931-32 show that nearly 1,450,000 tons are produced in India itself, the whole of which—with the exception of some 100,000 tons of mined salt from the Punjab—is derived from solar evaporation of salt water or brine. The remaining 450,000 tons are imported.

205. With trifling exceptions the sole port of import is Calcutta—for the markets of Bengal, Assam, Bihar and Orissa and to a small extent for the United Provinces. The climate of north-eastern India is unsuitable for the economic production of salt by the processes of solar evaporation, and these provinces are therefore compelled to procure their salt from other than local sources. All other parts of India are supplied by salt produced in India, mostly within easy reach of the consuming areas.

206. The salt imported at Calcutta comes in the main from England, Europe, North Africa and Aden, though a relatively small quantity is shipped from Bombay, Madras and Karachi, while, more lately, factories situated in certain of the States of Kathiawar have been permitted to compete in the Calcutta market. The principal sources of supply are the Aden factories, which have lately greatly increased their production and now furnish approximately 310,000 tons of the total, and, as Aden is administratively part of India, it may be said that only some 140,000 tons of India's total salt requirements have to be imported from non-Indian sources.

207. Salt in India has been the subject of taxation from time immemorial, and the principle of a salt tax was inherited by the British Raj from the Moghul Empire. The amount of the tax has varied greatly according to the requirements of the administration, but has at no time been entirely remitted. It is levied at so much per maund (82 lbs.), and the present rate of tax is Rs. 1-9-0 per maund (inclusive of a temporary surcharge of 5 annas), which, at a consumption rate of 12 lbs. per head, represents an annual

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tax of approximately  $3\frac{1}{2}$  annas (4d.) per head of the population. This taxation produces a substantial proportion of the central revenues. The Federal Finance Committee in their forecast of federal revenues estimate a net receipt of 555 lakhs of rupees from salt taxation, which represents about  $6\frac{1}{2}$  per cent. of the whole estimated revenue.

208. The cost of production of salt in India varies from a minimum of  $2\frac{1}{2}$  annas per maund to a maximum of 6 annas, and averages approximately  $4\frac{1}{2}$  annas per maund. The actual cost to the consumer is dependent upon freight charges (rail or sea) and to a less extent upon the operations of speculators, and varies with the quality of the salt. With duty at the present rate the average price is approximately Rs. 2-5-0 per maund, or about  $\frac{1}{2}$ d. a lb.

### History of Salt agreements with States.

209. Inasmuch as many Indian States possessed and operated their own salt works and placed their surplus salt on the British-Indian market, very great difficulty was experienced by the Government of India and the provincial Governments during the period of British expansion in India in protecting their salt revenue and ensuring its collection. The East India Company found themselves compelled to establish customs lines for the collection of salt import duties at their frontier. The most important of these cordons stretched for 2,472 miles from the Indus to the extreme south of the Central Provinces, and was guarded by an army of 12,911 officers and men at an annual cost of  $16\frac{1}{4}$  lakhs of rupees. It consisted of "a great impenetrable hedge of thorny trees and evil plants and stone walls and ditches, through which no man or beast could pass without being stopped and searched." This cordon was maintained against the salt-producing States of Rajputana and Central India, Bahawalpur in the Punjab and Cutch and Kathiawar on the West. It was still in existence in 1869. Certain other salt-producing States, such as Travancore, Cochin, and States on the eastern shore of the Rann of Cutch, against whom the maintenance of preventive lines was impossible, had already been dealt with by agreements concluded in some instances as early as 1824.

210. For many years previous to 1869 all salt production in British India had been a Government monopoly in the sense that salt sources were worked either by Government direct or by licensees under strict Government control. In 1869-70 the Government of India negotiated a lease of the most important and productive salt source possessed by any State, namely, the Sambhar salt lake. Out of this measure arose the opportunity for a general extension of the salt monopoly into the States and the abolition of the highly expensive preventive lines. A determined effort to this end was accordingly initiated in 1873, and carried to practical completion by 1880, by which the difficulties experienced with salt produced in the States were eliminated and an effective degree of Government control established over salt sources throughout India.



211. In brief, the method adopted was, firstly, to acquire from the principal salt producing States such additional salt works as were required to meet the increased demand for the satisfaction of which the Government of India proposed to assume responsibility; secondly, to organise the suppression of all other States' salt works and, thirdly, to secure the elimination of transit duties upon salt, it being the practice of many States, including those not producing salt themselves, to tax the salt of other States and of British India in passage to consuming areas.

212. Apart from Kathiawar and Cutch, where arrangements were concluded on a Paramountcy basis between 1883 and 1885, agreements of a commercial character embodying provision for compensation in respect of surrendered rights were entered into with about fifty States which owned, operated or had an interest in salt works, or were in a position to levy transit duties on an important scale.

213. It has been made clear that these negotiations were entered into primarily in the interests of the revenue of British India, but the needs of consumers both in the States and in British India were also an important consideration. By concentrating production, by introducing more efficient methods of manufacture and transport, and by securing the abolition of transit duties, a great deal was done to reduce the price of salt in many parts of India, though in States where salt taxation had hitherto been very light or even non-existent a new burden was placed upon their population. But inasmuch as a large number of States' salt works were producing earth salt of the crudest quality for consumption by the local population it is undeniable that the suppression of the manufacture of salt of this kind and its replacement by salt of greatly superior quality was an advantage to be set against any hardship due to increase of price. None the less, it is evident from the representations made to us that an element of compulsion is regarded as having entered into the negotiations leading up to the agreements referred to, and that a sense of grievance still exists. Many States have memorialized us in strong protest either against the suppression of their previously existing salt works or against the amount of compensation which the agreement gave them for such suppression.

214. These amounts were in fact assessed upon well considered principles. Where States were in possession of salt sources essential to the monopoly in process of creation, the commercial terms offered and accepted were liberal. In all other cases compensation was calculated with reference to the revenue which Government expected to receive from the salt duty which was about to be levied upon the inhabitants of the State concerned.

#### **Revision of Salt agreements impossible.**

215. We have been given the duty of determining the value of the privilege or immunity enjoyed by each State in respect of salt. We are not empowered by our Terms of Reference to evaluate rights no longer in existence. But, apart altogether from Terms of

Reference, it would be impossible for this or any other Committee to place a present day valuation on salt rights which were extinguished, or on salt works which were entirely destroyed more than fifty years ago. It must moreover be borne in mind that all salt agreements were negotiated with States which in the last resort possessed the full right to reject the terms offered; only in the special cases of Kathiawar and Cutch was it found necessary to invoke the principles of Paramountcy, and it must be presumed, in the absence of evidence to the contrary, that however reluctantly the terms may have been accepted, acceptance elsewhere was in fact a voluntary act. This being so, we are of opinion that there is no ground on which reconsideration of the salt agreements now under discussion would be justifiable at the present time.

216. But this is not to suggest for a moment that no such reconsideration will ever be required. As has been already stated, these salt agreements were negotiated as between the Government of India and the States primarily in the interest of British India. Under Federation the interests of British India will be able to claim no such priority, for the two interests will be identical.

217. Salt being a Federal subject, it will be equally the concern of the States and of British India to ensure the supply of India's needs and to protect her salt revenue. It may well be that with an increasing population (which even now requires the importation of foreign salt to satisfy its requirements) the development of new salt sources in India will need to be encouraged. It may also well be that the Federal Government, inheriting from the present Government of India considerable liabilities in the matter of annual compensation charged upon its salt revenues, may desire to diminish those liabilities by a change of policy towards salt sources owned by the States; and lastly, in any case, the States' representatives in the Legislature will have it in their power to call for a review of the whole subject, if and when they think it desirable. Their interests and those of British India could then no longer be in any sense antagonistic and any reconsideration of salt policy would be clearly entered into on a basis of equality.

218. It should here be made clear that the salt monopoly which the long sustained policy of the Government of India has created, together with the established system of collecting the excise duty at the sources of production, ensures that the whole population of India, whether resident in British India or in the States (with the exception of Kathiawar and Cutch, and certain areas supplied from Mandi) pays a salt tax at the rate from time to time in force in British India. It is true that to some extent this tax enures for the benefit of Darbars, and not of the Government of India (vide Appendix V), but, in the main, the population of the States contributes to salt revenues on the same basis as British India.

### **Principles of Valuation.**

219. We take the terms "privilege" and "immunity," as used by the Round Table Conference and in our Terms of Reference in relation to salt, to mean the extent of the exemption enjoyed by a

State (though not necessarily its inhabitants), through the operation of its treaties or commercial agreements, from the contribution to the central revenues which is made, through the incidence of the tax, by the provinces of British India and by other States. In pursuance of our Terms of Reference we have prepared a series of schedules showing the annual value of the exemption from British-Indian salt tax now enjoyed by each State concerned (Appendix V). States not mentioned in the Appendix enjoy no exemption, but it has been found desirable to include certain States which, though they enjoy no exemption, yet possess ascertained rights of a character which must be noted. In preparing these schedules we have met with some unanticipated difficulties. It has been generally assumed, even by States themselves, that all compensation paid to them under salt agreements would necessarily be included in the value of the immunity. That is by no means the case. We have found in a number of instances that when agreements for the acquisition or suppression of salt works were under negotiation the opportunity was taken of securing on a compensation basis the surrender of the right to levy transit duties or inland customs, and of other sovereign rights of a similar nature. But the amount of compensation payable under these various heads was not always differentiated. As it would clearly be improper to calculate the value of a salt immunity by reference to the total compensation payable under comprehensive agreements of this sort, we have been compelled to make an allocation. This has necessarily been of a rough and ready kind, in the absence of data which would be required for a scientific apportionment, but we are satisfied that it does substantial justice. We have also been confronted with the necessity of differentiating between compensation payable for the extinction of States' rights to levy duty on salt of their own production, and compensation payable for the suppression of salt works involving as an inevitable consequence the total loss of profit on the actual manufacture of salt. The former properly ranks as an immunity, the latter certainly does not. Though here also we could only allocate in some cases on a rough and ready basis, we felt that we should not be doing justice to the States concerned if we did not attempt the task.

220. In certain other very important instances we have found that a substantial portion of the compensation payable is for the surrender of land and works and is in the nature of rental or royalty. These payments cannot rank as a salt immunity and their value has not been debited against the States concerned.

221. The adoption of the above principles has had the effect of materially reducing the aggregate amount debited against the States on account of immunity from British-Indian salt tax, but we are satisfied that the figures shown in Appendix V are as fair to all parties and as substantially accurate as a close study of each case can make them.

222. As already stated, we do not here raise a debit against a State in respect of compensation in fact payable for the surrender of the right to levy transit or import duties, whether upon salt or other commodities. But States receiving this form of compensation are unquestionably enjoying exemption from full contribution to

central revenue, though this immunity is not from the payment of salt tax. It relates to the sphere of inland customs and is therefore dealt with in another Chapter.

### Conditions in Kathiawar.

223. The special case of Kathiawar is wholly different from those which have been already dealt with. The peninsula of Kathiawar on the west coast of India has a seaboard some 600 miles in length, an area of 23,445 square miles, comparable with that of the Irish Free State, and a population of approximately three millions. It is inhabited by an enterprising people and, together with the neighbouring island State of Cutch, is responsible for a large part of the Indian migration to East and South Africa. To-day, as for centuries past, they conduct an extensive dhow trade with Zanzibar and with the Persian Gulf. The coastal areas can almost be described as one vast natural salt pan.

224. Efforts were made by the Government of India, at the same time as settlements were being reached in Rajputana, to bring the Kathiawar States into line with all other Indian States on the basis of commercial salt agreements, but the difficulties were too great and negotiation was finally abandoned. Resort was then had to Paramountcy, and the Kathiawar States, while left free to continue the manufacture of salt, were subjected without compensation to very definite restrictions in regard to the quantity of output and the sale of the salt so manufactured. The sale of Kathiawar salt was and is unrestricted within Kathiawar, and carries no duty payable to the Government of India, but a preventive line is maintained on the inland boundary of the peninsula, across which no Kathiawar salt is permitted to pass into the markets of India. Shipment by sea to any Indian ports is forbidden (with one exception of importance to be referred to later), and all salt traffic carried in dhows is made illegal because of the facilities for smuggling offered to shipping of small draught by the innumerable creeks existing on the coast of Western India. Until very lately, the sale of Kathiawar salt has in fact been confined to Kathiawar, but the large amount of salt imported from overseas into Calcutta has occasioned a recent modification of policy, and Kathiawar States applying for permission are now allowed to send their salt to Calcutta only, provided it is shipped on steamers not touching at other ports, and that it is loaded direct on board such steamers. These shipments of salt pay customs duty at Calcutta, and no immunity arises therefrom.

225. It is stated in our Terms of Reference that "the ideal system of Federal finance would be one under which all federal units would contribute on a uniform basis to the federal resources." The position in Kathiawar is that no State contributes anything in respect of salt tax, but that is only a part of the difficulty with which we are confronted. With the exception of a trifling inland manufacture of earth salt, the only Kathiawar States producing salt are the maritime States, viz.:—Bhavnagar, Janjira (Jafarabad), Junagadh, Baroda (Kathiawar possessions), Porbandar, Nawanagar and Morvi, with Dhrangadhra on the Rann of Cutch. All the inland States of Kathiawar purchase their salt from the maritime States.



and such excise duty as is charged upon this salt goes, not to the Government of India, but to the maritime States. The effect of the present arrangement is that the inland States cannot claim any credit in respect of a contribution to central salt revenues inasmuch as they pay nothing, and they must therefore be debited with the value of a complete immunity.

226. The maritime States are, as has already been made clear, in the enjoyment not only of complete immunity for themselves, but are also enabled to impose such salt taxation as they choose upon their non-producing neighbours.

### Special circumstances of Dhrangadhra.

227. The case of Dhrangadhra on the Rann of Cutch is peculiar. This State manufactures a type of salt, derived from the evaporation of brine, known as *baragra*. This particular type of salt is identical with that produced by the British-Indian works at Karagoda, also on the Rann of Cutch, and it is held by the salt authorities of the Government of India that, the identification of *baragra* salt coming from Dhrangadhra being impossible, the risks to the revenue from smuggling call for special measures. These measures have taken the form of requiring that duty shall be collected at the British-Indian rate on all salt manufactured at the Dhrangadhra works. Dhrangadhra retains the duty collected, and is therefore in the enjoyment of an immunity, but, inasmuch as the British-Indian rate of duty is very much higher than the duty charged by the salt manufacturing States of Kathiawar, and Dhrangadhra, in common with other Kathiawar States, is debarred from the markets of India, this State finds itself at so great a disadvantage in competition with its neighbours that its works are in danger of extinction. The Dhrangadhra Darbar has made very strong representations to us on this subject.

### Suggestions for Kathiawar.

228. Viewing the matter as a whole in its relation to Federation we have come to the conclusion that there is only one solution for the problem presented by Kathiawar. The admission of non-contributing units would be wholly inconsistent with the federal ideal. The maritime States object strongly to the restrictions under which they are placed and are most anxious for access to the markets of India, while Dhrangadhra has a very special grievance arising out of the complicated history of its negotiations with the Government of India in recent years. The Darbars of the inland States are in an unfortunate and invidious position, inasmuch as the immunity which they possess by reason of the fact that their people do not pay salt tax to Government, and the value of which must therefore be debited against them, does not carry with it any countervailing financial advantage to them.

229. We are of opinion that restrictions upon trading activities imposed under Paramountcy without compensation cannot be maintained under Federation. We hold as a general principle, that, in a Federal India, States owning valuable salt sources should be treated

not as possessing potentialities of danger and injury to salt revenues but as units capable of making a helpful contribution to the efficient and economical supply of salt to India as a whole. Such States should be admitted as partners and co-operators in the business, and the present Kathiawar arrangements should give way to arrangements such as are outlined below.

230. We therefore suggest that all restrictions whatsoever on the marketing of salt manufactured in Kathiawar be withdrawn. But such a policy could only be inaugurated on a truly federal basis by the acceptance of obligations on a reciprocal basis by the manufacturing States which receive the suggested consideration.

231. We are of opinion that, in return for freedom to trade, the States concerned should voluntarily submit to the collection by Federal officers, at the source of manufacture, of the all-India excise duty. The duty is now collected at the sources of manufacture throughout India and the system is well understood, is effective, and works without friction. There is no reason to suppose that the same system, fortified by such general regulations as are common to the maintenance of salt works and the movement of salt throughout India, would not work as well in Kathiawar as it does elsewhere.

232. It is true that the acceptance of these obligations involves some surrender of sovereign rights, but the precedent already exists, and Kathiawar would be conceding nothing that has not already been conceded by the great States of Jaipur and Jodhpur. Moreover, a mutual agreement such as we suggest would be made with a Federation in which the States affected would themselves be units—an entirely different matter from an agreement made with the existing administration in which the States have no share. It is true, also, that our suggestion, if accepted, would increase the cost of salt to the population of Kathiawar, but we have already shown in our opening paragraphs that the incidence of this indirect taxation is not heavy, and, in any event, it would be no heavier than is borne by the whole population of India at the present time except that of Kathiawar. Moreover, the payment of salt tax on the same basis as British India and other Indian States would enable Kathiawar to make its contribution to the federal revenue in a manner probably more satisfactory to itself than any other which could be devised. It would also provide an immediate and effective remedy for the invidious situation of those inland States which at the moment must be debited with the value of a complete immunity. These considerations, together with opportunities for profit on the larger production which the removal of trading restrictions must provide, should go very far to compensate for the concession which it is suggested that they should make. The Government of India, or the Federal Government as its successor, might stand to lose at the outset by new competition with its monopoly, but the encouragement of the high-class salt production of Kathiawar could only be to the advantage of India as a whole, and the new revenue derived from the hitherto untaxed Kathiawar salt sources would more than counterbalance any loss occasioned by competition. Acceptance of our suggestion would

also eliminate the disabilities under which Dharangadhra now labours.

233. The Terms of Reference require us to include a schedule showing the value of the immunity now enjoyed by Kathiawar States. This has been done in Appendix V, the value of the immunity being calculated on the basis of population and on an average consumption of 12 lbs. per head per annum with salt tax at Rs. 1-9-0 per maund.

#### **Conditions in and suggestions for Cutch.**

234. The conditions existing in the State of Cutch are very similar to those existing in Kathiawar, with the difference that the market for Cutch salt is limited to Cutch itself under a Paramount agreement. A preventive line is maintained against the State on the mainland side of the Rann of Cutch, a tract which, it may be noted, can only be crossed by caravan traffic, and that only during the dry season. There is no rail or road connection between Cutch and the mainland of India. The State is most anxious for access to the markets of India both by sea and by land routes when open, and we make the same suggestions for Cutch as for Kathiawar.

235. It is perhaps desirable that we should re-emphasize our purpose in differentiating between the ascertained salt rights of Kathiawar and Cutch and the salt rights of other Indian States. The former have no commercial agreements; they receive no compensation for the restrictions under which they carry on their salt trade; and they have had to submit to a policy dictated by one interest only. The latter are parties to bi-lateral agreements under which they receive valuable considerations for the rights which they have surrendered.

#### **Special case of Mandi.**

236. Brief mention must be made of the isolated case of Mandi, a State whose territory is situated amongst the foot-hills of the Himalayas. This State owns rock salt which is quarried and commands a considerable sale in other Hill States, while some of it also finds its way into parts of British India. All of this salt is exempt from the payment of British-Indian tax. Some pecuniary compensation is received from the State by the Government of India for this infringement of the British-Indian monopoly, but it is doubtful whether the payment fully covers the loss to central revenues.

#### **Total Value of Immunities.**

237. Reference to Appendix V will show that the total annual value of those privileges in respect of salt enjoyed by Indian States (Kathiawar and Cutch excluded) which we have classified as immunities within our Terms of Reference is Rs. 38,15,151 and that, if Kathiawar and Cutch were included, the total annual value would be Rs. 46,06,057.

### Concluding remarks.

238. Before concluding this Chapter we desire to acknowledge all the assistance given to us in our examination of the subject with which the Chapter deals. The Sub-Committee charged with the duty of investigating it visited and inspected certain States' salt works, notably those at Okha and Probandar in Kathiawar. They also visited and inspected the Government works at Sambhar lake, the Dead Sea of India, in Rajputana. This great lake, where a combination of salinaceous soil and solar heat converts fresh water into 300,000 tons of salt per annum, is the greatest of India's salt sources. It belongs to the States of Jaipur and Jodhpur and is leased by Government. To all who were at such pains to show the different works and explain the processes of manufacture we owe and here express our thanks.

### Summary of conclusions and recommendations.

In the introductory paragraphs of this Chapter (paras. 203-208) we have given some account of the magnitude and origins of India's salt supply, the system of its taxation and the financial importance of this feature of the Indian fiscal system, it being estimated by the Federal Finance Committee that the net receipts from salt taxation should amount to Rs. 555 lakhs, or about  $6\frac{1}{2}$  per cent. of the estimated federal revenues.

We also show (paras. 209-214) how between 1870 and 1885 the Government of India, by a series of Agreements with salt producing States, was able to establish a practical monopoly of production and to remove the customs barriers previously maintained against States. Reference is made (paras. 211-214) to the principles adopted for purposes of those Agreements and to their effect upon the States concerned, which has in some instances given rise to a sense of grievance which still exists.

We describe at some length (paras. 228—235) the special cases of the States in Kathiawar, and of Cutch, whose Agreements subjected them without compensation to very definite restrictions in regard to the output and sale of salt, but who contribute nothing towards the central salt revenue.

Except in the cases of States in Kathiawar and Cutch, we see no ground for recommending any immediate revision of existing Agreements. The question of revising other Agreements will be for consideration in due course by the Federal Government, which may deem it desirable to arrange that salt sources closed or restricted under the present Agreements should be reopened in order to diminish the importation of foreign salt and to rid itself of compensatory liabilities (paras. 215-218).

To the extent that certain States, or their inhabitants, would under existing arrangements be exempt from contributing to federal revenues through the incidence of the salt tax, we find that they are undoubtedly in enjoyment of immunities. These immunities, as calculated by us (Appendix V) amount in all to



Rs. 46,06,057, of which Rs. 7,90,906 relates to Kathiawar and Cutch. In making these calculations we have carefully scrutinized the salt Agreements with a view to excluding compensatory or other payments which, in our opinion, do not rank as salt immunities (paras. 219—222), though, as will appear from Chapter VIII, some of them constitute immunities of another kind.

In regard to Kathiawar and Cutch we suggest (paras. 228—235) that all existing restrictions on the manufacture and marketing of salt should be removed, subject to the condition that the States concerned should permit collection of the federal salt duty by federal officers at the source of manufacture, together with the application of such administrative regulations as are common to the maintenance of salt works and the movement of salt throughout India.

## CHAPTER VII.—SEA CUSTOMS AND PORTS.

## Introductory.

239. Our Terms of Reference in respect of sea customs, as defined in the Prime Minister's letter dated 16th September, 1931, addressed to our Chairman, are as follows :—

“ In regard to the varying measures of privilege or immunity in respect of customs . . . enjoyed by certain States, (a) to investigate the position of each State with a view to determining the value of the ascertained existing rights in question ; (b) to express an opinion as to what compensation it would be worth while for the Federal Government to offer in return for the relinquishment of special privileges which each State now enjoys or such modification thereof as may appear to the Committee to be an essential preliminary to Federation. In framing such terms it would be open to the Committee to make allowances for any contributions of special value which the States in question might have been or be making to the resources of the Indian Government.”

In the ensuing paragraph we are also authorized to take into account existing facts not specifically mentioned in our Terms of Reference but which have a close bearing on the matters remitted to us.

**Views and conflicting policies of States and British India.**

240. The general problem is well stated in paragraph 17 of volume II of the Indian Statutory Commission's Report, and the attitude of the maritime States *vis-a-vis* British India may perhaps be not unfairly summarized as follows. They argue that they possess by virtue of their sovereignty the right of levying and retaining sea customs duties at their own ports ; that, while they have agreed in the interest of India as a whole to levy such duties at rates not lower than those charged at entry into British Indian ports, the existing scale of duties has been determined by British India without reference to them ; that the revenue they derive from these customs duties is substantial, elastic, and an important part of their total revenues, from which their State expenditure (including that on nation building activities), has to be met ; that the appointment of the staff by which they collect, and the manner in which they disburse, the revenue so realized from customs duties are entirely matters for their own decision ; and, in particular, that they cannot be debarred from utilizing that revenue in the maintenance and development of the ports at which the customs duties are levied.

241. On behalf of British India, it may be said that it is an essential part of a federal scheme that there shall be a uniform system of customs duties—uniform in the scales of charge on each commodity, in the method of collection and in subordination to the Federal authority—and that it would make for efficiency, if

not necessarily for economy, if all customs staff were concentrated under one administration ; and that, if the revenue realized from such a uniform system of customs duties is to be allotted wholly to federal needs, it is reasonable that against the value of the duties levied at their ports and hitherto retained by the States there should be set off the value of the general benefit which would accrue to the States from Federation, including the right to a voice in the determination of Federal policy.

242. No one disputes the right of the States, in their own interest and for their own purposes, to levy customs duties at their ports ; but it is clear that the British Indian authorities are fully entitled to take steps to secure that their own revenues are not thereby prejudiced. British India also not unreasonably complains that trade is diverted from its own ports, with consequent loss of revenue, to ports developed and maintained by States by means of subsidies from their general revenues, which are being constantly increased by the customs duties arising from the trade which those subsidies have attracted. These subsidies may take the form of provision of capital without interest or sinking fund charges, abnormally low port charges, especially for warehousing, the financing of traders on exceptionally favourable terms, and preferential adjustment of State railway rates.

243. The port trusts of all the major ports of British India are, on the other hand, administered on a self-supporting basis ; that is to say, their income is derived from port dues and charges which they are required to adjust so as to cover all proper expenditure, including interest and sinking fund charges. They have no right to draw upon the general revenues of the provinces in which they are situate or on those of the Government of India for the purpose of meeting any deficiency, and neither they nor the provinces have any claim upon any part of the customs duties levied at their ports.

244. Port trusts, other business undertakings, have to face competition from one another, but that competition is carried on under financial and administrative conditions applicable to all alike. The position is entirely altered when they are faced with competition from a port administered by a State on wholly different principles. The State has not only been enabled, through recent changes in British Indian fiscal policy, to reap an advantage as fortuitous as it was unexpected and, in certain cases, to acquire a revenue out of all proportion to its population, but, by using that revenue for the purpose of subsidizing the further development of the port, abstracts trade from its British Indian competitors and indirectly compels them to furnish it with the means of intensifying its competition. In addition to this, British Indian taxpayers, though they continue to bear the burden, are deprived of the benefit of the taxes which they indirectly pay. No doubt this is also the position of consumers resident in inland States served by British-Indian ports, but any grievance which they at present entertain by reason of their subjection to a system of sea customs taxation in the control of which they have no voice would find a remedy from their participation in a federal constitution. One

question at least which we have to consider is whether after Federation the maritime States can by virtue of their geographical situation claim to continue in an exceptional and privileged position.

### Value of India's overseas trade.

245. Before dealing in detail with the circumstances of the Indian States' ports it seems desirable to indicate in broad outline the general importance of the international trade of India and of the import and export duties levied on that trade. We have therefore prepared a summary of this overseas trade (excluding coin and bullion) for the quinquennium 1926-27—1930-31 ; and also for the financial year 1931-32 just ended. The figures for Burmese trade are excluded throughout.

(Rs. lakhs.)

				Total Imports.	Total Exports.	Total.
1926-27	..	..	..	217,22	271,27	488,49
1927-28	..	..	..	235,11	288,69	523,80
1928-29	..	..	..	242,10	305,43	547,53
1929-30	..	..	..	228,09	279,46	507,55
1930-31	..	..	..	152,11	194,21	346,32
1931-32	..	..	..	120,11	138,27	258,38

246. The duties levied on this trade are as follows :—

(Rs. lakhs.)

#### Export Duties.

1926-27	..	..	..	..	..	..	..	4,92
1927-28	..	..	..	..	..	..	..	5,13
1928-29	..	..	..	..	..	..	..	4,72
1929-30	..	..	..	..	..	..	..	5,17
1930-31	..	..	..	..	..	..	..	3,80
1931-32	..	..	..	..	..	..	..	3,40

(Rs. lakhs.)

#### Import Duties, excluding salt.

1926-27	..	..	..	..	..	..	..	35,88
1927-28	..	..	..	..	..	..	..	36,07
1928-29	..	..	..	..	..	..	..	37,22
1929-30	..	..	..	..	..	..	..	37,28
1930-31	..	..	..	..	..	..	..	34,09
1931-32	..	..	..	..	..	..	..	35,75

(Import duties on overseas salt have been excluded, partly for the reason that such duties are included in the salt and not the customs revenue and partly because, as no salt is imported at Indian States' ports, the inclusion of import duties thereon in the above table would adversely affect comparison between the customs revenue collected at States' ports and at Indian ports as a whole.)



247. It is common knowledge that the years 1930-31 and 1931-32 show an alarming drop in the volume of India's international trade, the total of imports and exports for the year 1931-32 being only 47.1 per cent. of the peak year 1928-29 and only 53 per cent. of that for the quinquennium 1926-31. In these circumstances any generalizations about India's overseas trade are necessarily hazardous. But if, as we hope, we are justified in regarding the "slump" shown by the figures as of temporary duration only, we may assess her total overseas trade at approximately Rs. 500 crores. The customs duties thereon, at present rates but without the temporary surcharge, would amount to about Rs. 60 crores, but in view of the present abnormally low prices of several important commodities, the duties on which are specific and not *ad valorem*, we put the total customs duties at not more than Rs. 50 crores even on the optimistic assumption made as to a revival of trade.

248. Such is the magnitude of India's overseas trade and such the importance of her maritime customs. The importance to India of her customs revenue is greatly increased by the fact that, in a country at India's stage of economic development, there are peculiar difficulties in the levying of direct taxation. Customs and excise are in practice the most convenient methods of raising revenue; customs revenue is explicitly recognised as the main item of the federal budget and thus assumes an added importance for the future.

#### State ports visited and inspected by Committee.

249. With these facts in mind we now have to survey the overseas trade and the customs revenue of the Indian States with reference to their "ascertained existing rights" in respect of the latter. The Sub-Committee deputed for the purpose visited and inspected the following States' ports :—

Trivandrum	.. }	..	..	Travancore State
Quilon	.. }	..	..	
Alleppey	.. }	..	..	Government of
Cochin	.. }	..	..	Madras and
			..	Cochin State
Bhavnagar	.. }	..	..	Bhavnagar State
Verawal	.. }	..	..	Junagadh State
Mangrol	.. }	..	..	(with Mangrol)
Porbandar	.. }	..	..	Porbandar State
Okha	.. }	..	..	Baroda State
Bedi	.. }	..	..	Nawanagar State
Rozi	.. }	..	..	
Navlakhi	.. }	..	..	Morvi State
Mandvi	.. }	..	..	Cutch State
Kandla	.. }	..	..	

They also interviewed the representatives of Cambay, at Bombay; the representatives of Janjira, at Rajkot, in respect of Jafarabad port; and the representatives of Savantwadi at Sangli.

250. The above is a complete list of the maritime States, which, in respect of their "ascertained existing rights," may be dealt with in three groups (1) Cochin and Travancore, (2) the Kathiawar States, and (3) the other maritime States. To these must be added a fourth group comprising certain States which, though not maritime, have privileges or claims in respect of sea customs. We proceed to deal with these four groups in the above order.

### (1) Travancore and Cochin.

251. The Indian coast-line within the territory of Travancore and Cochin States has a definitely tropical character and possesses several distinctive features. Along the sea-board there has appeared, from the inter-action of factors still imperfectly understood, a long strip of land separating from the sea a system of waterways running from north to south some 150 miles in total length and of varying width, into which fall the rivers which drain the terrain between the hills and the sea. It includes a number of natural and artificial subsidiary channels, the whole providing a system of communication connecting on its west side at Alleppey and Cochin with ocean-going traffic and on the east with the low-lying areas of the two States.

252. The strip of land between this lagoon and the sea is subject at points to erosion on the sea frontage. This has been artificially checked at Vypeen Island, lying to the north of Cochin harbour, where it might otherwise have seriously affected that harbour. There is another, perhaps unique, feature, *viz.*, the presence of an oily substance, apparently vegetable in origin, which during the rainy season is, by some syphonic action due to the pressure of river water accumulated in the lagoon, discharged into the sea, where it has the effect of reducing wave action and thus makes it practicable for vessels to anchor, discharge, and load in open roadstead even during the monsoon. Alleppey in particular derives advantages from this peculiar natural phenomenon.

### TRAVANCORE.

253. The ports of Travancore State—Colachel, Trivandrum, Quilon and Alleppey—are all open roadsteads. Colachel and Trivandrum are merely beach ports with no facilities and a trifling trade. Quilon is served by a jetty and does a considerable import trade, mainly in non-dutiable commodities such as rice and paddy. Alleppey is Travancore's most important port and some 436 steamers anchored in its roadstead in 1930-31. It is supplied with a conveniently constructed jetty, godowns for merchandise, and some other necessary equipment of a busy port. It has no rail connections but is linked with the great system of inland waterways already referred to and conducts a substantial import and export trade local in character.

254. None of the Travancore ports seriously competes or is likely to compete with British Indian ports and they may be regarded as serving the needs of the population of Travancore alone.

## COCHIN.

255. The port of Cochin is in an entirely different class in that it possesses a harbour in the true sense. At Cochin the waters of the lagoon from the northern and southern directions join in the harbour, where there is deep scour due in part to the meeting of the tidal and fresh water and in part to the junction of the two streams of fresh water. This scour is of importance as facilitating the opening out, by dredging, of the channel to the deep sea and the keeping open of this dredged channel. Access to the sea for vessels of deep draught once secured, the lagoon provides an extensive and completely protected natural harbour. The bottom of this harbour consists of soil readily moved by suction dredger and suitable for the formation of reclamation areas.

256. The port of Cochin is a British Indian and not an Indian State port ; but it is a fragment of British India standing in absolute isolation and its development is dependent upon the co-operation of the neighbouring State of Cochin.

257. The Portuguese established a settlement at the harbour mouth in 1502. The Dutch took it from them in 1663, and held it undisputed till 1759, when the Dutch power had begun to decline. The Zamorin of Calicut invaded the settlement but was expelled with the aid of Travancore ; and between 1776 and 1791 Haidar Ali and Tipu Sultan asserted their suzerainty over Cochin. Thereafter it was subjected to attack by various Indian rulers but finally fell to the East India Company in 1791, since when it has remained a British possession. It is a tiny, though very populous, settlement covering only one square mile of land ; but that land includes both sides of the harbour entrance, and an important part of the lagoon comprising the harbour is also British. It is administered by the Government of Madras, of which Presidency it forms a part, and its customs house is controlled by British Indian officials.

258. Along the whole 840 miles of Indian coast from Bombay to Cape Comorin there was no safe harbour in British Indian or Indian State territory. Only at Portuguese Goa was there such a harbour, and it is small wonder that for at least 50 years the possibilities of Cochin have been closely investigated. But it was not till recent times that the development of suction dredging reduced the problem to an economic proposition. In 1920 a resident harbour engineer was appointed and from that date development of the harbour's facilities has gone steadily forward with the full co-operation of the State of Cochin.

259. The major works so far completed comprise : —

- (a) the protection of Vypeen Island on the north ;
- (b) the dredging of a deep-sea channel giving over 30 feet at low water ;
- (c) the formation of two islands from soil dredged in the harbour, the larger of which will provide the site for the harbour buildings and wharves ;
- (d) the laying of suitable moorings inside the harbour, at which vessels can lie in safety, and the provision of port

equipment and facilities, such as an excellent pipe line suction dredger, launches, survey vessels, oil and water supply, etc.

260. But the port development has not yet entered upon its final stage, which will make it possible for ships to lie alongside equipped wharves. Plans and estimates have been prepared for permanent jetties and transit sheds on the larger island formed within Cochin State waters from the dredged material, together with rail connection with the mainland. When this stage has been completed, the port should possess all the principal requirements of a well developed harbour for ocean-going ships, providing the long sea-board of south-west India with facilities long needed.

261. The present trade of Cochin port is principally a trade in foodstuffs. Its imports supply a dense population, Cochin State containing  $1\frac{1}{4}$  million and Travancore over 5 millions of people, while its exports are drawn from the products of a highly fertile soil. Over 500 ships now call within the year. The imports comprise some 400,000 tons of cargo per annum, mostly rice and paddy, kerosene and petrol from Burma, sugar from Java, and grain from Bombay and Karachi, while its exports have a volume of about 100,000 tons per annum, the chief items being cocoanut products, pepper, tea, and tiles. All this traffic, both import and export, is handled at moorings, the goods being boated to and from British Cochin and Ernakulam, the present rail-head, which is situated in Cochin State on the mainland shore of the harbour.

262. We have given, as a necessary preliminary, a general description of Cochin port and its development, and we proceed to survey the "ascertained existing rights" in the customs revenue of the port possessed by the two States of Travancore and Cochin. These rights are governed by the Inter-portal Trade Convention of 1865 and the Four-Party Agreement of 1925. The acquisition by the two States under these Agreements of an interest in the customs revenue of the port was, as will be seen, the result of an exchange of valuable considerations.

### **Inter-portal Convention of 1865 and Port Agreement of 1925.**

263. The Convention of 1865 provided that :—

(i) No duties should be levied either by the Government of India or by the two States on goods produced or manufactured in British India on their import, whether by sea or by land, into Cochin and Travancore territories, excepting tobacco, salt, opium and spirits.

(ii) No duty should be levied by the Government of India on goods produced or manufactured in the two States on their import into British Indian territory, whether by sea or by land, excepting salt, opium and spirits.

(iii) Free trade should be established between Cochin State and the State of Travancore.

(iv) The two States should adopt the British Indian tariff and rates of import duty on all foreign goods imported into them, tobacco being excepted on import into Travancore.



(v) Foreign goods which had already paid duty on import to British India or to either of the two States should be allowed to pass free in the event of their transport from either of these territories to the other.

(vi) Cochin State should adopt the British Indian rates of export duty on articles exported to foreign countries, pepper being excepted.

(vii) Travancore State should levy export duties, not less than those obtaining in British India but not more than Rs. 5 per cent., on all ordinary exports, 10 per cent. on timber and Rs. 15 a candy on pepper and betel-nut *ad valorem*.

(viii) The two States should adopt the British Indian tariff valuations for exports as well as imports.

(ix) The two States should adopt the British Indian selling price of salt and be permitted to import British Indian salt on the same terms on which it was imported into British Indian ports.

264. As compensation for the resulting loss to Cochin, the Government of India agreed to make over to the State a moiety of the customs receipts at the port of Cochin, and further guaranteed a customs revenue of not less than Rs. 1 lakh and an import duty of not less than Rs. 10,500. Travancore was granted a cash compensation, out of which a claim by the State has arisen with which we deal later in this Chapter.

265. Under the Port Agreement of 1925 the two States entered into certain financial commitments in respect of the development of Cochin harbour, then and still proceeding, and it was agreed that, after that stage in the development of the new harbour had been reached when ocean-going steamers were regularly berthed within the harbour, the net customs collection at the port should be divided in three equal parts between the Government of Madras and the States of Cochin and Travancore, with the implied understanding that the Government of India would be substituted for the Government of Madras if and when Cochin, as a major port, passed under the charge of the former. It was further agreed that the customs revenue collected on imports only at the Travancore ports of Quilon and Alleppey should be pooled, for the purpose of arriving at the three-party division, with the customs collections made at the port of Cochin. The new allocation of customs receipts contemplated in the Agreement of 1925 has now come into effect as from 1st April, 1931.

#### Claim of Travancore under Convention of 1865.

266. Under the 1925 Agreement, the "ascertained existing rights" both of Cochin and of Travancore are clear, though the valuation of them is complicated by the somewhat indefinite financial commitments of the two States in respect of the development of the harbour. A question has, however, arisen as to the scope of the right acquired by Travancore under the Inter-portal Convention of 1865 to compensation for the loss of revenue involved in the acceptance by the State of certain provisions in the Convention.

267. It will be seen from the terms of the Convention which have already been set out that Travancore surrendered the right to levy duties on goods produced or manufactured in British India or on goods which had already paid duty in British India, subject to certain exceptions not here relevant, retaining only the right to levy duties on goods imported directly from abroad. By this surrender (designed to promote greater freedom of trade between the State and British India) of the right to levy duties on all goods other than those directly imported from abroad, Travancore gave up a certain amount of revenue which had therefore accrued to it, and endeavoured in the course of the negotiations to secure from the Government of India some compensation for this loss. The form in which the claim for compensation was finally put forward appears in a Memorandum submitted by the Dewan on the 3rd November, 1864, and described by him as a "Memorandum of the terms of the proposed Commercial Treaty between British India and Travancore." The material clause of the Memorandum is as follows :—

"The British Government to protect Travancore against loss of import duty on foreign goods imported through British-Indian ports, till Travancore ports obtain direct trade and the said loss disappears. This protection to be granted to Travancore . . . to the extent of the amount by which the collections of import duty on foreign goods which may hereafter be directly imported into Travancore under the terms of the proposed Treaty fall short of the amount of the same duty on all foreign goods directly and indirectly imported into Travancore in an average year, it being understood that British Indian valuations and rates of duty should be used in calculating these duties."

268. This Memorandum, with earlier correspondence between himself and the Dewan, was forwarded five days later by the Resident to the Government of Madras, with a covering letter setting out figures which, he observed, would enable an approximate calculation to be made of the amount of compensation for which the Government of India would become liable under the proposed arrangement. The Resident pointed out that as the trade of Travancore was steadily advancing, it was not suitable to go far back to "form an average of its prospective state," and he was of opinion that the last two years might be taken as a fair and proper standard. These showed that the average import duty on foreign produce had been Rs. 52,218 on the basis of the British Indian tariff and valuation (which it was thought more equitable to take) and that the deficiency arising from the loss of duty on goods directly imported, which it was now proposed should be made up by the Government of India, would be approximately Rs. 40,000.

269. The Government of Madras, on 16th February, 1865, considered the letter of the Resident and the documents which he had forwarded from the Dewan, and in their Proceedings of that date reviewed the course of the negotiations and the points where the parties were still at issue. They observed that, as regards foreign goods, Travancore had agreed to levy the British Indian rates of import duty, excepting from this rule cotton and metals, which were to pay 10 per cent., and including in the category of

foreign goods, goods of foreign origin re-exported to Travancore from British Indian ports ; that the Government of India objected to the latter proposal ; and that the Travancore Government was willing to yield the point but claimed a guarantee of the revenue involved, arguing that the revenue thus realised was derived from the consumption of its subjects and that, in the form either of a drawback or a guarantee, they were fairly entitled to claim it. On consideration of the various concessions which Travancore had expressed its willingness to make, and of its financial condition and the reforms it had still to carry out in its administration, the Government of Madras then recorded a decision to recommend to the Government of India that Travancore should be secured against loss by a guarantee to the extent of what would be the probable loss, *viz.*, Rs. 40,000. This recommendation was forwarded to the Government of India on the same day in a despatch which recommended the acceptance of the proposals finally put forward by Travancore, and added " the guarantee will amount to Rs. 40,000 at present and will be gradually reduced as the direct trade of Travancore increases."

270. The Government of India, on 8th April, 1865, signified their acceptance of the recommendations of the Government of Madras, and the latter Government, on 25th April, requested the Resident to report without delay whether the Travancore Government agreed to the arrangement which had been finally proposed by the Government of Madras in their Proceedings of 16th February, to which reference is made above. On 11th May, 1865, the Resident acknowledged the receipt of the letter from the Government of Madras and informed them that the Travancore Government had now conveyed to him their consent to the arrangement proposed. A Notification was accordingly published making the Convention effective as from 1st July following.

271. We have set out the facts relating to the final conclusion of the Convention of 1865 in some detail, in order that the course of events may be clearly followed. The Dewan, in his final Memorandum of 3rd November, 1864, asked for compensation to " the extent of the amount by which the collections of import duty on foreign goods, which may hereafter be directly imported into Travancore under the terms of the proposed Treaty, fall short of the amount of the same duty on all foreign goods directly and indirectly imported into Travancore *in an average year*," and the Government of India, on the recommendation of the Government of Madras, accepted this proposal by quantifying the loss at Rs. 40,000, in accordance with the figures supplied by the Resident, and fixed that sum as the maximum limit of the compensation in any one year for which they (the Government of India) were willing to accept liability for the compensation to be paid.

272. That this is the true interpretation of the agreement between the parties we can scarcely doubt, and we are glad to find our view confirmed by a paragraph which has regularly appeared year by year in the Travancore Administration Report. In the Report for 1930-31, it runs as follows :—

" 63. Under the Inter-portal Trade Convention entered into with the British Government in 1865, Travancore does not levy

duty on imported goods, with certain exceptions, produced or manufactured in British India or in the Cochin State, or on goods which have already paid import duty in Cochin or British India. But Travancore levies duty on articles imported direct from abroad. The average amount of customs collected at the time of the Inter-portal Convention was Rs. 53,218, of which Rs. 13,218 represented the amount of import duty then realised at the Travancore seaports, and the British Government guaranteed the State a total import revenue to this extent by undertaking to make good any deficit up to Rs. 40,000 a year. In other words, when the Travancore sea customs collections (on imports from foreign countries, excluding goods imported by sea for the use of the Travancore Government) are less than Rs. 13,218, the British Government pay to Travancore Rs. 40,000 ; but if, in any year, the collections exceed Rs. 13,218, the excess amount realised is deducted from the sum of Rs. 40,000, and the balance alone is payable to Travancore. No amount was payable during the year under report by the British Government under the Inter-portal Trade Convention."

273. In our opinion, therefore, the "ascertained existing rights" of Travancore under the 1865 Convention include a right to receive compensation in the circumstances mentioned up to a maximum of Rs. 40,000 in any year. The Travancore Darbar have, however, now claimed that "it is only just and proper that the compensation amount should be so adjusted as to correspond with present conditions and carry out the intention of the Convention to compensate Travancore for the loss actually incurred by her." They estimate the amount of duty payable on foreign goods now annually imported into the State, and mainly taxed at British Indian ports, to be no less than 57 lakhs of rupees, and we were informed by them that they had already moved the Government of India that the question might at once be settled so as to enable us to base our recommendations on the revised figures. If, however, the Government of India should not find it possible to decide the matter at an early date, then the Darbar asked that we should take it into account under the paragraph in our Terms of Reference which authorises us to consider other facts in the financial or contractual relations between the States and the Government of India which, though not specifically mentioned in the Terms of Reference, have a close bearing upon the matters remitted to us.

274. We cannot agree that this claim of Travancore is one with which we can deal under the paragraph of our Terms of Reference which is quoted above. We are, as we have said, unable to accept the interpretation placed by Travancore on the Agreement of 1865, and in these circumstances we cannot regard the rights claimed by the Darbar under that interpretation as "ascertained existing rights."

#### **Value of existing rights of Travancore and Cochin under Agreement of 1925.**

275. We must now revert to a consideration of the rights acquired by the two States under the Four-Party Agreement of 1925. It



has already been stated that under this Agreement the import duties collected at Quilon and Alleppey are to be pooled with the import and export duties collected at Cochin. We therefore append tables showing the value of the trade at these ports and the duties collected thereon.

#### ALLEPPEY.

<i>Value of Trade (Rs. lakhs).</i>				
		<i>Imports.</i>	<i>Exports.</i>	<i>Total.</i>
1926-27	..	116.3	407.3	523.6
1927-28	..	187.0	387.6	574.6
1928-29	..	191.1	423.1	614.2
1929-30	..	187.5	406.7	594.2
1930-31	..	95.3	338.1	433.4

<i>Duties collected (Rs. lakhs).</i>					
		<i>Imports.</i>	<i>Exports.</i>	<i>Misc.</i>	<i>Total.</i>
1926-27	..	1.29	11.92	.04	13.26
1927-28	..	2.09	9.16	.05	11.30
1928-29	..	1.16	10.48	.05	11.70
1929-30	..	2.84	10.2	.06	13.11
1930-31	..	2.85	11.35	.05	14.26

#### QUILON.

<i>Value of Trade (Rs.).</i>					
<i>Imports.</i>			<i>Exports.</i>		
	<i>Dutiable.</i>	<i>Non-dutiable.</i>	<i>Dutiable.</i>	<i>Non-dutiable.</i>	
1926-27	.. 3,354	12,40,538	8,059	76,498	
1927-28	.. 506	7,68,277	5,081	62,847	
1928-29	.. 2,437	22,35,384	11,228	77,664	
1929-30	.. 3,554	19,57,036	8,294	38,169	
1930-31	.. 6,245	19,01,018	2,398	51,398	

<i>Duties Collected (Rs.).</i>					
			<i>Imports.</i>	<i>Exports.</i>	<i>Misc.</i>
1926-27	..	..	611	699	28
1927-28	..	..	76	393	1
1928-29	..	..	336	799	1
1929-30	..	..	333	8,082	56
1930-31	..	..	965	298	41

The export duties collected at these two ports do not come into the pool, but we have included the figures for the export trade at Alleppey and the duties collected upon it as exemplifying the very high value, even under the depressed conditions now prevailing, of the commodities produced in Travancore. The trade figures for Quilon are interesting as demonstrating the heavy import traffic in non-dutiable commodities conducted there, though the port's contribution to the receipts of the pool will clearly be negligible. It is apparent that the total benefit to be derived by the pool from Travancore ports will be about Rs. 3 lakhs.

## PORT OF COCHIN.

276. In respect of the port of Cochin, the following figures give the overseas trade and customs revenue for the quinquennium, 1926-27 to 1930-31 :—

		<i>Rs. lakhs.</i>		
		<i>Imports.</i>	<i>Exports.</i>	<i>Net Customs Revenue.</i>
1926-27	..	5,57.36	5,14.18	18.25
1927-28	..	6,46.36	5,86.64	30.62
1928-29	..	5,56.57	5,74.27	28.66
1929-30	..	5,84.76	5,30.84	31.56
1930-31	..	5,41.68	4,83.58	34.78

277. It will be noted that there has been a marked increase in the customs revenue during the last four of these years, though not in the value of the port's total trade. This increase is chiefly attributable to sugar, which alone produced Rs. 18.32 lakhs in 1930-31 (more than one-half of the total collection), a result which is partly attributable to increased importation, due to the fall in price (from Rs. 203 per ton ex-duty in 1926-27 to Rs. 115 in 1930-31), and partly to the increase in the rate of duty, which has risen from Rs. 4-8-0 per cwt. in March, 1930, to Rs. 9-1-0, as from September, 1931. If we take into account only the figures for the last complete year for which they are available, we find a total net customs revenue from Cochin port of nearly Rs. 35 lakhs, to which for the purposes of the Agreement of 1925 approximately Rs. 3 lakhs receivable from the Travancore ports has to be added, giving some Rs. 38 lakhs for division between the three participating parties. or rather more than Rs. 12 lakhs to each of the two States with which we are now concerned.

278. It is the right to receive these Rs. 12 lakhs each which constitutes the "ascertained existing rights" of Travancore State and of Cochin State respectively at the present time. But the terms of the Agreement of 1925 clearly require us to bring within the ambit of those rights the revenue likely to be available for division on the completion of the last stage of the port of Cochin's development.

279. The problem of forecasting the revenue of the next few years is particularly difficult. The five main factors to be considered are :—

(a) whether the development of the port of Cochin with its intended improved railway connections will be fully completed within a reasonable time ;

(b) the future course of trade, and particularly of the trade in those commodities in which the two States are chiefly interested, i.e., the markets for their exports and the prices ruling for their principal imports ;

(c) the fiscal policy of India with its reaction on such items as sugar ; and

(d) the contemplated separation of Burma from India, with the possibility of taxation on Burmese rice exported to Cochin, Alleppey and Quilon.

280. It is obviously beyond the competence of this or any Committee to attempt any prediction with regard to the last three factors, but, as regards the first, something must be said. The amount of capital expended on the port of Cochin up to the present is approximately Rs. 83.5 lakhs, *viz.*, Rs. 36.95 lakhs lent by the Government of Madras, on which the port pays interest and sinking fund charges, Rs. 27.18 lakhs provided as a grant in aid by the Cochin State, Rs. 16.36 lakhs derived from port funds, and Rs. 3.01 lakhs borrowed on short-term loan. The cost of the further development necessary to complete the port according to plan is estimated at Rs. 90 lakhs. Allowing some margin for contingencies, we may assume that a total debit on capital account of Rs. 1 $\frac{3}{4}$  crores may be expected before the port development is finally completed. It will be seen that, of the expenditure already incurred, a substantial portion has been provided by the State of Cochin in the form of a grant-in-aid, and the arrangement contemplated when the 1925 Agreement was concluded was that the contributions of Travancore and Cochin towards the further Rs. 90 lakhs of capital required should be provided in the same form. If we take the present trade of the port as in the neighbourhood of Rs. 10 crores and assume an increase of five per cent. per annum arising from the further development of the port, we have by the year 1935-36 a trade of approximately Rs. 12 crores and, assuming a *pro rata* increase in the customs revenue, a figure of Rs. 46 lakhs, or an increase in customs revenue of approximately Rs. 8 lakhs, a handsome return on the additional capital to be spent. But a note of warning is called for both as regards these possibly optimistic assumptions and also as regards the perpetuation or extension of the present method of financing the port.

281. As to the former, we have to bear in mind the dense population already existing in both States, the absence of any indication of industrial development, and the competition of other ports. All these must be considered in addition to the external factors which we have already mentioned. As against these it is true that Cochin has great natural advantages and that these have been developed wisely and successfully; also that the improved railway connections now being effected and others in contemplation, together with the additional improvements actually included in the next stage of development, may have far-reaching effects on the future of the port.

282. As to the latter, the date should not be far distant when the port authorities can be called upon to frame a budget drawn on strictly commercial lines, and to provide in it for interest and sinking fund charges on their capital expenditure. At present their several funds—Landing and Shipping Fund, Port Fund and Pilotage Fund—are all maintained on a cash basis, with aggregate balances as at March, 1931, of some Rs. 11 lakhs; but a complete system of accountancy would require a balance sheet and a revenue account providing for interest and sinking fund charges on the capital, the objective being, of course, to make the port a wholly self-supporting undertaking.

283. In our opinion, the port of Cochin—as the only port (excluding Portuguese Goa) between Bombay and Colombo which affords safe

anchorage and real harbour facilities to large ships at all seasons of the year and which, when fully developed, will afford all the facilities of a modern port—is of great present value and must in the future be of even greater value to an Indian Federation, in whose undivided possession, unhampered by any obligations to third parties, it clearly ought to be.

## (2) The Kathiawar States.

284. The peninsula of Kathiawar is wholly in Indian State territory. On its landward side it abuts on British India, while its seaboard of some 600 miles in length is washed on the south by the waters of the Gulf of Cambay, on the north by the Gulf of Cutch, and on the west by the open sea. Along the Gulfs of Cambay and Cutch, siltation limits and controls to a great extent the prospects of the ports situated on their shores, though the waters of the Gulfs, with the innumerable creeks diverging from them, offer protection to shipping and opportunities for port development. The ports established on the west coast of the peninsula are open roadsteads with, in some cases, harbour facilities in varying stages of construction. The Gulf ports of Kathiawar are Bhavnagar, Bedi, and Navlakhi, while the west coast ports are Jafarabad, Verawal, Mangrol, Porbandar, and Okha.

285. The peninsula has a population of three millions and a substantial part of the trade handled at all these ports is local in character, but the importance of many of them to the present Government of India, as to the future Federal Government, lies in the fact that they are in rail connexion with other wide areas and populous centres for whose trade they can and do successfully compete. The extent and importance of this railway connexion are made very clear in the map which we have caused to be prepared in order to illustrate the position of ports in Indian States in relation to India's railway system. The route from Kathiawar to Delhi is not only shorter than that from any other port to India's capital but also obviates the necessity of change of gauge and transshipments in the case of goods destined for Rajputana or other places on the metre gauge system. The area served by this system is very considerable.

286. The extent to which the States have availed themselves of their opportunities to levy and retain sea customs duties at their own ports, combined with their successful competition for trade in the interior, has had so great an effect upon the trade of the Kathiawar ports that we feel it essential to give some account of the customs rights asserted or admitted in respect of these before proceeding to describe the circumstances and trade of each port in detail.

287. For 80 years or more the Government of India had been exercised over the question of reconciling their policy of free trade between the States of Kathiawar and British India with their desire to protect the revenues derived from customs duties on imports from overseas. Before railways were developed in Kathiawar the existence of ports in the States did not seriously affect the fiscal interests of the Government of India, and by a Notification issued in 1865 that Government declared the various



ports in the territories of Baroda and Bhavnagar to be British ports for the purpose of certain sections of the Sea Customs Act. The effect of this declaration was to put these ports in the position of minor ports in British India, so that no duties were leviable on any trade between them and British Indian ports, though no drawback was allowable on goods charged with duty, etc., at British Indian ports and re-exported to the States. The two States concerned undertook to levy duty on foreign imports at not less than British Indian rates, but no other States in Kathiawar were bound by any such obligation. In 1878 a revised Sea Customs Act was passed and included a provision for free transshipment of dutiable goods. The Act gave power to the Governor-General in Council to prohibit transshipment to any specified ports and in pursuance of this power a Notification was issued on 7th May, 1879, prohibiting transshipment to all Kathiawar ports, except Bhavnagar which had certain privileges by Treaty. Transshipment to non-prohibited areas could always be refused under the new Act at the discretion of the Collector and this discretion appears to have been exercised from time to time against Bhavnagar.

#### History of Viramgam Line from 1905 to 1917.

288. From 1882 to 1894 the general tariff in British India was in abeyance and the protection of the Government of India's fiscal interests was a matter of minor importance. After its reimposition, the Kathiawar sea-board began to be linked up by rail with the British Indian railway system and the danger of competition from the Kathiawar ports engaged the Government of India's attention. Discussions with the States ensued as to the methods of protection to be adopted, and the suggestion by the Government of India that it should take over the customs administration of the ports and pay the net revenues to the States was rejected. Meantime the smuggling of silver (then a dutiable article) from Muscat into Kathiawar brought matters to a head, and it was decided to impose a line of customs stations from the Gulf of Cambay to the Rann of Cutch along the British Indian frontier of the Kathiawar States. This cordon, which was known as the "Viramgam Line," came into being in January, 1905, and duties at British Indian rates were charged on all goods crossing it into British India.

289. The Viramgam Line was naturally unpopular with the States, and, in the very year of its imposition, the Government of India offered to abolish it on the following conditions :—

(i) that the Darbars would undertake to levy, at all their ports, customs duties not lower than those enforced simultaneously at ports in British India by the Indian Tariff Act, 1894, and any other Act prescribing imposts on the import or export of merchandise, *e.g.*, the Tea Cess Act ;

(ii) that they would levy duty, at rates not lower than those for the time being in force in British India, on cotton goods or other similar excisable articles produced or manufactured within their territories ;

(iii) that they would undertake to enforce the tests and regulations which are enforced at British Indian ports in accordance with the Indian Merchandise Marks Act and similar enactments ;

(iv) that they would absolutely prohibit the importation at their ports of arms, ammunition and warlike stores, as well as of any articles in respect of which a prohibition against import into British India is issued under competent authority ;

(v) that the existing arrangements as regards salt, opium, spirits and other exciseable articles would not be disturbed ;

(vi) that the Darbars would maintain accurate statistics of the trade passing through their ports and would place these statistics at the disposal of Government ; and

(vii) that they would agree to the periodical inspection, by a customs officer in the service of Government, of the accounts and arrangements at their customs houses.

290. The States were unwilling to accept condition (vii) and the Viramgam line remained in being until 1917. In that year the Government of India finally gave way on this point, but reiterated the other six conditions, which represented the extreme limit to which they were prepared to go to meet the wishes of the Darbars. If these conditions were accepted, the States were not only to receive the privilege of British ports in respect of coasting trade but were to be allowed to receive the duty on all articles of foreign origin which were imported into British India from the States by land, and the Government of India was not to levy duty on goods which were the produce of, or were manufactured in, the States, when imported into British India across the land frontier. It was made clear that this concession must not be construed as amounting to an abandonment of the undoubted right of the Government of India to levy duty on all goods imported into British India, whatever might be the origin of such goods and by whatever route they might be imported. But while this prerogative would be upheld, the Governor-General in Council would be prepared to guarantee that it would not be exercised so long as the States abided loyally by the terms of the proposed arrangement. If they did not, and if in any State at any time such grave maladministration were discovered as to jeopardise imperial interests, the Government of India would retain the power to take any measure necessary to protect those interests. The smuggling of arms was especially a matter of concern to the Government and it was hoped that the Darbars would recognise the need of securing a rigid adherence to condition (iv) of the agreement. It was also to be clearly understood that if at any time in the future, by the creation of a port capable of accommodating large vessels or otherwise, the fiscal interests involved became very important, the Government of India would reserve the right to reconsider the position generally.

291. The above-mentioned terms were accepted by the maritime States concerned, though His Highness the Jam Sahib of Nawanagar asked for further information as to the meaning of the expression

"if at any time in the future . . . the fiscal interests involved become very important," since he was anxious to secure that his acceptance of the conditions should not "interfere with a healthy development of our resources to the extent of their natural capacity." He received a reply to the effect that the Government of India had no intention of imposing conditions which would have that effect, and this letter has since given rise to a controversy between the Jam Sahib and the Government of India. This controversy is now *sub judice* and we therefore make no further reference to it except to point out that the Jam Sahib's rights are at the moment undefined. The cordon was withdrawn in 1917, and on 15th June, 1918, the prohibition on free transhipment was modified so as to allow of it in the case of goods carried by steamer (but not by sailing vessel) from Bombay or Karachi. Further, the Notification of 1865 in respect of Baroda, Bhavnagar and Cambay ports was supplemented by a Notification, dated 22nd December, 1917, directing that the ports of Junagadh, Porbandar, Jamnagar and Morvi should be treated for the purpose of the levy of customs duties in the same way as British Indian ports.

#### **Development of Kathiawar Trade after abolition of Viramgam line.**

292. The existence of war conditions prevented any immediate developments as a result of the removal of the Viramgam line, and it was not until 1923 that attention was called to the fact that matches, sugar and silk were being transhipped in large quantities at Bombay to Kathiawar, and were coming back by land to various parts of British India where they were being sold at prices with which goods imported *via* Bombay could not possibly compete. It was ascertained that most of the trade was passing through Bedi Bandar (Jamnagar) in Nawanagar State, and the Bombay Government in September, 1923, authorised the Collectors of Bombay and Karachi to refuse free transhipment to that port. A warning was also issued by the Bombay Government to the Darbars of Porbandar and Morvi, and the Bhavnagar Council of Administration was asked for an explanation in connection with certain allegations which had been made against them. The Bombay Government considered that drastic steps were not yet necessary and they undertook to watch developments, reserving measures of retaliation until the necessity for them should arise. Meantime the Jam Sahib protested vigorously against the prohibition of free transhipment to his Jamnagar port. Acting on the advice of the Bombay Government, the Government of India agreed to the removal of the embargo against Nawanagar, but transhipments continued to increase rapidly in number and in volume until, by the end of 1924, goods were also being transhipped to Kathiawar from Goa, Colombo and Aden.

#### **The Mount Abu Conference and reimposition of Viramgam Line in 1927.**

293. In the meantime new factors had arisen. The port of Okha in Baroda territory had been improved so as to provide accommodation for large ocean-going vessels and the facilities offered at Bedi

Bandar so extended that, in addition to the transshipment of cargoes carried by small vessels of the British India and Bombay Steam Navigation Companies, these ports were being regularly visited by direct steamers from Java and Europe. The Government of India held that, under the arrangements of 1917, it had become necessary for them to reconsider the whole position. To this end they decided that a conference should be held at Mount Abu, which the Rulers of the maritime States in the Western India States Agency were invited to attend either in person or by plenipotentiaries. The objects of the conference were :—

(1) to find a new arrangement under which the fiscal and other interests of British India would be reasonably safeguarded with due regard to all similar interests of the States and without recourse being had to the re-imposition of a land customs line between Kathiawar and British India ; and

(2) if, unfortunately, no such arrangement could be found, to consider what measures could be taken to reduce to a minimum the inconveniences that would be caused to Kathiawar and British India by the re-imposition of the Virangam Line. The whole question of free transshipment was also to be reviewed, and the representatives of the Government of India were given full powers to arrive at a settlement that would be within the limits of these terms of reference if the representatives of the States were given similar powers.

294. Before the conference was held a memorandum was circulated to the States concerned as a basis for discussion. The first two paragraphs of the memorandum ran as follows :—

“ (1) The Government of India propose that, as an alternative to the re-imposition of the Land Customs Line, the States should agree to an arrangement under which the customs administration of the ports that remain open to foreign traffic, whether direct or by transshipment, should be handed over to Customs Officers appointed by and responsible to the Government of India, who will collect customs duties at British Indian rates, the proceeds being credited to central revenues in return for an assignment to each State (*see below*), the remaining ports being closed to such traffic. The Government of India have however authorised their representatives to consider modifications of such an arrangement.

“ (2) In arriving at a settlement, it will be borne in mind that the logical alternative to the re-imposition of the land customs line is an arrangement that would limit the aggregate of the States' shares in the customs collections to the amount leviable on goods consumed in Kathiawar States. In view, however, of the opportunities that were given to the States in 1917 and of the extent to which the States have taken advantage of those opportunities, the Government of India are unwilling to insist upon a strict application of the principle stated above. Their offer to those States that will accept the arrangement



stated in paragraph (1) is a guaranteed annual payment (for a term of years, at the end of which the arrangements will be revised) of a figure equal to (1) the highest amount collected by each State in any year up to and including 1925-26, *plus* (2) an allowance where necessary, in consideration of capital expenditure incurred from 1917 up to date on developments of their ports and railways serving the ports, *plus* (3) 10 per cent. of the total of (1) and (2). These terms are suggested in the event of States feeling themselves able to concur without modification in the arrangement outlined in paragraph (1). Should States be unable or unwilling so to concur, the terms suggested would require revision."

295. During the conference, which assembled in June, 1927, no State was willing even to discuss the proposal that the customs administration of ports open to foreign traffic should be handed over to customs officers appointed by, and responsible to, the Government of India, in return for a fixed assignment in the form of a guaranteed annual payment. This proposal was regarded as an encroachment on sovereign rights. It became evident that the States, although fully conscious that such an arrangement might not be so advantageous to them financially as the proposal in the memorandum, would be more likely to come to terms on the basis that they should continue to be responsible for the administration of their own customs, and that any allocation of customs revenue should not be a fixed annual payment, but should be dependent on the collections of each year in such a way that it would appear that actual receipts were equitably shared.

296. The following four main subjects were put forward at the conference for discussion :—

- (a) uniformity in the rates of customs duties (both import and export) at the ports of Kathiawar and of British India ;
- (b) uniformity in customs administration ;
- (c) police preventive work ; and
- (d) the allocation of customs revenue.

297. As regards (a), the case for uniformity was based on Article 7 of the Geneva Statute on the International Regime of Maritime Ports. The importance of the Statute to the foreign trade of India was readily recognised and the necessity for uniformity was not disputed.

298. As regards (b), it was explained that a uniform tariff would be meaningless if it were interpreted differently in different ports, and that the employment of British Indian customs officers at State ports was necessary for purposes other than the protection of the financial interests of the Government of India. Here reference was made to the growth of foreign trade and consequent need for uniformity in four important matters, *viz.*—the interpretation of the tariff, appraisement, the application of the law of Merchandise

Marks, and the enforcement of prohibitions and restrictions on import and export.

299. It had been found in British Indian ports that uniformity of administration could only be maintained by constant supervision and inspection, and it would therefore be a necessary condition of a customs agreement with the Kathiawar States that a similar uniformity should be maintained to the satisfaction of the Government of India at the State ports where there was foreign trade. After much discussion there appeared to be a general inclination to accept the necessity for uniformity of administration and to agree provisionally to an arrangement whereby officers of the British Indian customs service would be lent to the States for employment at those ports where there was foreign trade, and the States would periodically request the Government of India to lend the services of a competent officer, with an adequate staff, for inspection and audit.

300. As regards (c), the States recognised the importance to themselves and to India generally of efficient police supervision at ports which were in direct communication with foreign countries, and they were willing to co-operate in any measures that might be found necessary for this purpose. Without reflecting on the competence of their own officers, they were not disposed to dispute the necessity of special knowledge and experience. It was impressed on them that the requirements of the Government of India were that the States should employ such number of lent officers as might be the minimum essential, and should agree to the inspection of police arrangements by an officer appointed under the orders of the Government of India.

301. From the attitude of the States there was no reason to expect that there would be serious difficulty in arriving at an agreement on this basis. It appeared, however, that negotiations would be easier if these matters were discussed independently of the Agreement of 1917.

302. With regard to (d), the details of a financial settlement were discussed separately with each State. The instructions to the Government of India's representatives at the conference were that the maximum assignment for each State should be the highest amount of customs revenue collected in any year up to and including 1925-26, *plus* an allowance, where necessary, in consideration of capital expenditure incurred from 1917 up to date on the development of ports and railways serving the ports. Customs collections above an amount so fixed should be handed over to the Government of India.

303. On the ground that a port was a public utility work, and having regard also to the rate of interest payable on Port Trust loans in British India, the Government representatives calculated the allowance on capital expenditure at 6 per cent., the fairness of which was not disputed. A further allowance for depreciation was

suggested, but not pressed. On this basis, therefore, it was calculated that the maximum assignment in the case of each State would be :—

*Rs. lakhs.*

State.	Highest amount of customs revenue up to and including 1925-26.	Allowance for capital expenditure.		Maximum permissible.
		Total expenditure from 1917 to date.	Allowance at 6 per cent.	
Baroda .. ..	..	65	3.9	3.9
Junagadh .. ..	8.4	28	1.7	10.1
Mangrol .. ..	1.5	..	..	1.5
Nawanagar .. ..	29.7	70	4.2	33.9
Porbandar .. ..	9.7	..	..	9.7
Morvi .. ..	1.8	..	..	1.8
Total .. ..	51.1	163	9.8	60.9

304. It was evident, however, that the permissible maximum calculated on this basis would not satisfy States like Baroda and Morvi, whose ports were not developed in 1925-26. The Government of India's representatives obviously could not propose a flat rate for each State calculated on the maximum permissible for Nawanagar. But they endeavoured to make a rough estimate which would provide for the normal increase of customs revenue following on the legitimate growth of traffic, with due regard to the natural capacity of each port. They proposed, therefore, to go up to the following maximum for each State :—

*Rs. lakhs.*

Baroda .. ..	..	20
Junagadh .. ..	..	12
Mangrol .. ..	..	2
Nawanagar .. ..	..	34
Porbandar .. ..	..	10
Morvi .. ..	..	6
		<hr/>
		84

305. A relatively high maximum for Baroda seemed necessary in view of the extensive and populous territories of the State in other than its Kathiawar possessions, and of its claim to customs revenue on goods supplied to its own territories through its own port.

306. All States other than Nawanagar objected to the proposal that payments to each State should be stabilised on the basis of existing customs receipts, at a time when Bedi Bandar had developed

so greatly in advance of other Kathiawar ports. They urged that it should not be assumed that their natural capacity for development was less than that of Bedi Bandar. Whatever figure was, therefore, fixed for Nawanagar should be extended to all other States as a maximum up to which they should be permitted to develop. On the other hand, Nawanagar was unwilling to agree that the customs revenue of 1926-27 should be left out of account, arguing that the improvements at the port of Bedi Bandar only began to take full effect in that year, and that the natural capacity of the port was, therefore, represented more accurately by the figure of 1926-27 than by the figures of 1925-26.

307. As the States concerned were unable to agree amongst themselves and did not accept the proposals made by the Government of India, it was decided to re-impose the Viramgam line. This was done with effect from 4th July, 1927, the following special arrangements being made in order to reduce to a minimum hindrance to local trade and inconvenience to passengers :—

(i) The export tariff has not been extended to the land customs frontier ;

(ii) all goods produced in Kathiawar are passed free of duty on the land frontier. A regular system under which State officers can issue certificates for the purpose of satisfying customs officers on this point in respect of goods other than agricultural produce has been introduced, while agricultural produce is specifically exempted ;

(iii) *bonâ fide* passengers are allowed to import with them their personal and household effects free of duty, and each *bonâ fide* passenger is permitted to import free of duty a quantity of merchandise on which the total duty does not exceed Rs. 10.

308. The States concerned have accepted an arrangement by which their merchants enjoy the advantage of passing their goods over the land customs frontier without paying duty there and with the minimum of examination. The States have also agreed to refund to the Government of India the duty collected by them at British Indian rates on such goods as are loaded at the ports for passage beyond the land customs frontier. Certificates are issued by Darbars to cover consignments despatched by rail from their ports to British India, and these certificates form the basis for the recovery of duty from the States by the Government of India. It is claimed by the Government of India that, as a result of these arrangements, the passage of travellers and goods is not impeded by the imposition of the Viramgam Line in such a manner as to interfere with the natural development of the Kathiawar ports, and indeed it is a fact that the growth of trade has been continuous since the re-imposition of the line.

### Protests of States and reply of Government of India.

309. In 1927-28 the States of Baroda, Nawanagar, Junagadh, Morvi, and Porbandar submitted memorials to the Government of India against the decision terminating the Agreement of 1917. The main arguments adduced by them were that they had abided



loyally by the terms of the 1917 Agreement, that they had zealously avoided all malpractices, and that it was unfair that the Government of India should re-impose the Viramgam line. Orders were issued in September, 1929, rejecting these memorials. Subject to a qualification referred to below, the Government of India stated that the existing regime would be maintained at the land frontier in respect of goods imported from Baroda (Okha) and Nawanagar, since trade in foreign goods through the ports of these territories had reached the stage at which very important fiscal interests were involved. It recognised, however, that trade in foreign goods through the ports of Junagadh, Porbandar, Morvi and Janjira States had not yet passed beyond the stage at which the institution of arrangements for keeping a record of trade passing into British India, in order to see when the limit of important fiscal interests is reached, became essential. In these cases all that was required for the present was to secure registration of goods passing through its frontier after having been imported at the ports of these States. The Government of India accordingly decided to refund all the amounts of customs duty recovered from them under the certificate system and to refrain from submitting claims under that system in future, unless and until the traffic in foreign goods through any of these States so developed as to reach the stage in which the fiscal interests of British India were affected to an important extent.

310. In order to avoid any appearance of discrimination against Baroda and Nawanagar it was stated that a similar refund would be made to each of them of an amount equal to the highest amount refunded to any of the three Kathiawar States (Junagadh, Porbandar and Morvi) and, in adjusting future accounts, each of these States would be allowed a credit (against the debits raised under the certificate system) equal to the highest amount of duty foregone in favour of any of the three other named States in the same year. It was further laid down that a maximum limit of Rs. 2 lakhs would represent the point beyond which the fiscal interests of Government were held to become "very important"; that is to say, as long as the customs duties on goods imported by any State and crossing the Viramgam Line did not exceed Rs. 2 lakhs per annum, the State would be allowed to retain the duties; but once the limit of Rs. 2 lakhs had been in any year exceeded, this concession would be withdrawn.

311. Lastly, if any State, on a misunderstanding of the significance of the arrangement of 1917, and on an expectation of the continuance of the revenue from customs, had, before 1927, incurred heavy capital expenditure, the Government of India would consider a claim from the State for some lump sum contribution towards the excess capital expenditure. Any such claim would have to be based upon the actual expenditure incurred, and would only be admitted in so far as it related to expenditure that had proved uneconomical as a result of the arrangements made by the Government of India in 1927 and the consequent frustration of expectations which were felt when the expenditure was incurred. Thus both the return which had already been enjoyed before July, 1927, and also the return which the States continued and would continue to enjoy from the expansion of the trade of their ports within Kathiawar, would have to be taken into account.

## The Viramgam Line and Treaty Rights of Bhavnagar.

312. Reference has already been made to the fact that in 1865 the States of Baroda and Bhavnagar were admitted as members of the British Indian customs union. Bhavnagar, however, had already acquired, in respect of her principal port, rights of such importance that the State now stands on a footing different from that of any other Kathiawar State. Its case therefore calls for separate exposition.

313. The earliest customs agreement with this State was concluded in 1860 and is of special interest in that it provides that the port dues and customs at the port of Bhavnagar should be collected by the Government of India and that two-fifths of the net customs collections should be retained by them. The Government of India also agreed, in consideration of Bhavnagar abandoning certain claims to land customs duties, to limit its customs rights there to "two-fifths of the net customs hereafter to be collected on trade to and from other than British ports on the continent of India," thus permitting the retention by the State of all customs duties on coastal trade.

314. The agreement of 1860 was revised in 1866, when it was agreed that customs and port dues at Bhavnagar would in future be collected by the Darbar instead of by the Government of India. The latter also abandoned its remaining right to two-fifths of the customs collections on foreign trade in return for the surrender by the Darbar of its right to compensation (Rs. 2,793) for abolition of its mint, and of certain other rights valued at Rs. 6,890. In the agreements, both of 1860 and 1866, "Government agree to admit Bhavnagar to the full benefits of a British Port, so far as the Thakore may desire." In 1865 the Bhavnagar ports were notified as customs ports, and the Bhavnagar Darbar, in their memorandum submitted to us, refer to this arrangement as a "solemn agreement entered into with Government."

315. After the first establishment of the Viramgam line in 1904, the claims of Bhavnagar to be in a position preferential to that of any other maritime State led to prolonged controversy. In fact the question had arisen as early as 1893. The Darbar based their claims on their right, acquired by the agreements of 1860 and 1866, to "the full benefits of a British Port." The Government of India were of opinion that this assurance "had reference solely to the trade of Bhavnagar by sea" and "as a matter of legal construction" did not preclude the Government of India from taxing, at its land frontier, goods imported *viâ* Bhavnagar port. The then Secretary of State, Lord Morley, was however unable to agree with this view and ruled that "so long as His Highness fulfils his part of the agreement, it is not open to Government to hinder or tax the land trade of Bhavnagar by the establishment of a customs line." Thus Bhavnagar port now occupies a position unique among the ports of Indian States. But this ruling did not apply to the minor ports in the State, in regard to which Lord Morley held that the Government of India was not committed to a formal agreement in consideration of value received, as in the case of Bhavnagar port itself.

316. Before the question of reimposing the Viramgam line came under consideration in 1927, the Government of India made a special reference to the Secretary of State about the minor ports of Bhavnagar. It was desired, *inter alia*, to make it clear to the Bhavnagar Darbar at the Abu Conference that the arrangements made in 1865 regarding the minor ports "do not, in the changed circumstances, prevent us from reconsidering the position in regard to these ports and, in the last resort, imposing a customs barrier against goods imported through them." The Secretary of State concurred in this view.

317. In the administrative arrangements made in connexion with the reimposition of the Viramgam line, provision was made for all goods imported *via* all Bhavnagar ports to be passed free into British India, but the Government of India was most careful to discriminate between Bhavnagar port itself and the minor ports of the State. It was made clear that what was a permanent right for the former was nothing more than an administrative arrangement for the latter. The Bhavnagar Darbar did not fail to protest against this discriminatory attitude, and objected to the announcement that "for the present" no distinction will be made between the chief port and the minor ports of Bhavnagar. They asked that the words "for the present" should be withdrawn. The Government of India in reply requested the Agent to the Governor-General to explain to the Darbar the distinction drawn by Lord Morley between the Bhavnagar port and the minor ports and added that "they might at the same time be assured that the Government of India have no intention of modifying the arrangements regarding the minor ports unless some unforeseen contingency which necessitates this action arises." But the memorandum submitted to us by the Bhavnagar Darbar cannot be said explicitly to recognise this distinction which, though of minor significance at the present time, may become of vital importance in the not far distant future.

### Physical characteristics and trade of the Kathiawar Ports.

318. Having now explained the circumstances governing the customs rights of the Kathiawar maritime States in respect of their ports, we pass on to make brief reference to the conditions obtaining at each of those ports, taken in the order of their geographical position from the Gulf of Cambay to the Gulf of Cutch.

#### BHAVNAGAR.

319. Half-way up the Gulf of Cambay on its western side lie the port and town of Bhavnagar, the capital of the State of that name. The Gulf is defined by low-lying banks of alluvial origin and is characterised by a very great range of tide, attaining as much as 40 feet at Bhavnagar, which is situated on a creek several miles from the open waters of the Gulf. The port facilities comprise an anchorage eight miles or more from the port proper, between which and large vessels at the anchorage goods are moved in lighters, while the port itself can accommodate small coasting steamers which lie on the mud at low tide. There is ample warehouse accommodation and good direct railway communication with the whole of India.

In 1930-31, 59 ocean-going steamers and 3,710 coasting steamers and other craft called at the port. The volume of trade and amount realised in customs duties at all Bhavnagar ports is as shown below :—

		<i>Value of Imports.</i>	<i>Value of Exports.</i>	<i>Customs duties on Imports.</i>
		<i>(Rs. lakhs).</i>		
1926-27	..	240.36	201.61	9.18
1927-28	..	300.83	388.86	19.32
1928-29	..	349.55	299.39	28.56
1929-30	..	216.47	200.40	39.39
1930-31	..	239.99	147.61	51.05

In 1930-31 the value of sugar imports was Rs. 35.27 lakhs.

#### JAFARABAD.

320. Janjira State, situated on the seaboard south of Bombay, possesses a small area of territory in Kathiawar, centred upon the town and port of Jafarabad. It is a beach port without any facilities for ocean-going traffic, and steamers calling there anchor in open roadstead. But it maintains a coastwise food-stuff trade of considerable importance, carried, as for centuries past, in dhows. The port is closed during the monsoon, when the dhows registered there take refuge in a convenient creek.

321. The value of trade and of the customs duties, which are levied upon foreign trade only, is :—

		<i>Value of</i>	<i>Value of</i>	<i>Customs Duties.</i>
1930-31	..	Rs. 6,25,803	Rs. 7,03,829	Rs. 45,947

#### VERAWAL.

322. The port of Verawal in Junagadh consists of a good roadstead anchorage, with two masonry piers built out at right angles to the shore, the larger, on the western side of the port, being a substantial structure carrying a railway track and crane, and admitting of small craft coming alongside to the landing stage at all states of the tide. The harbour equipment comprises, in addition to the structural work on the piers, good warehouses, a small dredger, a crane, launches, etc., and a scheme is on foot for completing a small harbour for lighters, etc., which would cost some Rs. 40 lakhs, in addition to the Rs. 40 lakhs already spent on existing facilities. The port has direct connection with the Junagadh State Railway and, although goods are at present landed from ocean-going steamers in the roadstead by lighters, there are no special difficulties in dealing with commodities of ordinary size, these being manhandled across the beach to the railway at moderate charges. The port is closed during the monsoon. During the last two years there have been about 32 ocean-going and about 162 coasting steamers calling in each year. The import traffic consists chiefly of sugar, rice, cotton seed and miscellaneous manufactured goods, while the export traffic is principally of cotton, ground nuts, bananas, onions, and other agricultural produce.



323. Below is given a statement of the value of Verawal's foreign trade and of the foreign customs collected thereon.

	<i>Value of Foreign Imports.</i>	<i>Value of Sugar Imports.</i>	<i>Customs Duties on Imports.</i>	<i>Value of Foreign Exports.</i>
	(Rs. lakhs.)			
1926-27 ..	27.47	11.16	5.62	1.07
1927-28 ..	23.09	7.19	5.01	3.08
1928-29 ..	28.02	14.06	8.66	30.02
1929-30 ..	25.56	10.75	9.93	22.24
1930-31 ..	28.92	12.11	13.71	16.39

324. The marked increase in the value of exports in the years 1928-31 is due to heavy shipments overseas of ground nuts and ground nut seeds. A great part of the export traffic leaves by coasting steamer and is transhipped at Bombay or Karachi. As regards exports, since the only duty realised is a local State duty, it is not necessary to give customs figures. It will be seen, therefore, that the import duties now being realised have for the last three years averaged about Rs. 10 lakhs per annum, but here the progressive increase must be attributed largely to the increased consumption of sugar and the higher duty on it. Any traffic from Junagadh State ports to British India which crosses the Viramgam Line is, under existing arrangements, liable to be debited with British India duty to the extent and under the conditions which we have detailed above. The volume of such through traffic is, however, comparatively small, the amount of duty thereon for the year 1930-31 being Rs. 1.9 lakhs.

#### MANGROL.

325. The port of the very ancient city bearing the same name, which is said to be identical with the Monoglossum of Ptolemy, consists of an open roadstead with one masonry pier, against which small craft can lie at all states of the tide, but there is no railway connexion and the warehouse accommodation and other port facilities are on a meagre scale. The port cannot be used during monsoon months. The inward traffic consists chiefly of sugar, rice, and miscellaneous manufactured articles, and the outward traffic of agricultural produce, which moves principally to Karachi and the Persian Gulf. There is a bi-weekly service of coasting steamers and, in addition, 12 foreign-going vessels called in 1930-31. We were informed that about Rs. 1.65 lakhs had been spent on harbour facilities up to the present, and that the customs realised on imports during the last five years had been :—

	Rs.
1926-27 .. .. .	24,283
* 1927-28 .. .. .	31,546
1928-29 .. .. .	33,879
1929-30 .. .. .	52,119
1930-31 .. .. .	1,18,465

Here sugar is again the most important item, having provided, in the year 1930-31, Rs. 1,08,192, or all but Rs. 10,000 of the total amount realised.

326. If any of Mangrol's traffic passes over the Viramgam Line, which is very doubtful, its customs value is far below the maximum limit of Rs. 2 lakhs. In any case it would, failing a contrary ruling, be included in the total for Junagadh, to which State Mangrol is politically subordinate.

#### PORBANDAR.

327. The harbour of Porbandar is an open roadstead but with coral reefs protecting the inner harbour, which consists of a tidal creek capable of receiving all small craft and well provided with warehouse accommodation and railway connections. A dredger is employed, of the rock-breaking type, and there should be no difficulty in making a good entrance to the inner harbour, though it seems extremely unlikely that large ships would ever be able to take advantage of these facilities. In 1930-31, 304 steamers called at the port and a large number of dhows are registered here. There is a considerable traffic, which includes passenger traffic, with East Africa ; the imports comprise sugar, rice, dates, grain, cotton seed, timber and oil, and the exports, cement, stone, cotton, fruit and agricultural produce. The harbour is closed during the monsoon.

The value of the trade is as shown below :—

	<i>Imports.</i>	<i>Exports.</i>	<i>Customs duties on imports.</i>
	<i>(Rs. lakhs.)</i>		
1926-27 .. ..	86.35	81.6	3.64
1927-28 .. ..	80.51	77.73	4.49
1928-29 .. ..	96.51	85.71	4.42
1929-30 .. ..	84.05	55.92	5.58
1930-31 .. ..	78.61	48.42	5.06

328. The amount of customs duty on goods imported at Porbandar and passing through the Viramgam Line has not yet approached the maximum limit, so that the whole of these duties are retained by the State.

#### OKHA.

329. Port Okha, situated in a detached portion of Baroda State far distant from the Gaekwar's main territories, is wholly dissimilar from all other Kathiawar ports. It is not, like them, an evolution, from beginnings lost in antiquity, of the food-stuff trade which they still conduct. It is an entirely modern conception, begun and completed with great enterprise, for the express purpose of dealing with ocean-going traffic in commodities unconnected with the trifling requirements of the scanty population of Okhamandal. It lies in a strategic position at the extreme north-west point of the Kathiawar peninsula, readily accessible to all steamers trading along that coast. The harbour scheme has been well designed ; there is an excellent ferro-concrete jetty, served by railway lines and cranes, alongside which two large vessels can lie at all states of the tide, and there are also swinging moorings for other vessels in a protected position. The harbour is well lighted ; the warehouse

accommodation and railway connection are all excellent ; and the lay-out of the administrative buildings and residential quarters is well conceived and executed. The port is available, even to large ships, at all states of the tide and at all seasons of the year. The disadvantages are that the approach channel from the sea is circuitous and not devoid of risk, and that Okha is far removed from the large centres of population, being 231 miles from Wadhwan Junction, through which railway centre its traffic must pass. In 1930-31, 34 ocean-going steamers and 214 coasting steamers visited the port. The total capital expenditure, up to 31st July 1931, has been Rs. 38.93 lakhs. From the administrative standpoint also there is small room for criticism, the accounts being well designed and well kept and the annual Administration Report an excellent and informative document. Ultimately it is hoped by the State authorities that this port will be financially self-supporting and this goal is kept in mind.

330. The following are the figures of imports and exports and customs duties realised.

			<i>Value of Imports.</i>	<i>Value of Exports.</i>	<i>Customs duties on Imports.</i>
			<i>(Rs. lakhs).</i>		
1926-27	..	..	29.79	.008	5.93
1927-28	..	..	75.02	18.29	9.93
1928-29	..	..	93.94	29.23	11.77
1929-30	..	..	92.64	11.84	12.8
1930-31	..	..	60.25	12.12	14.65

331. The principal items of import are china clay, dyes, textile machinery, iron and steel, railway plant, motor cars, starch and sugar ; of export, seeds and cotton. Sugar is responsible for more than one-third of the total customs duties realised. The proportion of Okha trade passing the Viramgam Line is high, having averaged Rs. 10 lakhs for the two years 1929-30 and 1930-31.

#### BEDI.

332. The principal port in the State of Nawanagar is Bedi Bundar, situated a few miles from the city of Jamnagar, at the head of a tidal creek some eight miles long, near the mouth of which is the roadstead called Rozi, in which ocean-going vessels lie at anchor. For steamers of any size Bedi offers no port facilities in the generally accepted sense of the term. Such vessels do, and always must, cast anchor miles from Bedi itself in the uncertain waters of the Gulf of Cutch—uncertain because of siltation and the constantly shifting mud banks.

333. The tidal creek connecting the Gulf with Bedi contains but little water at low tide, and no dredging could compete with the siltation to which the creek is subject. What has been done by the enterprise of the present Ruler, assisted by competent advisers, is to construct at the head of the creek a spacious basin equipped with excellent warehousing accommodation and railway connections,

offering facilities to merchants for the effective conduct of extensive trade. Goods are transhipped between this basin and steamers lying in the Gulf by means of lighters of modern type, which are towed up and down the creek by well-equipped tugs, as the state of the tide permits. These lighters and tugs are so constructed as to lie without damage or inconvenience on the bottom of the basin when the tide runs out. The total capital expenditure on Bedi Bandar and the beach port of Rozi up to May, 1931, has amounted to Rs. 113.06 lakhs. The port is open at all seasons of the year.

334. In 1930-31 there were 697 vessels calling at the port, including coasting vessels. The consistent encouragement of the Ruler, and the number and importance of the merchant class in Jamnagar with their trade connections at other places in Kathiawar and beyond, have all assisted in developing a very large and important traffic.

The figures are as given below :—

			<i>Value of Imports.</i>	<i>Value of Exports.</i>	<i>Customs duties on Imports.</i>
			<i>(Rs. lakhs).</i>		
1926-27	..	..	244.2	36.69	78.9
1927-28	..	..	215.2	69.5	58.1
1928-29	..	..	256.9	143.2	79.3
1929-30	..	..	278.6	99.4	98.1
1930-31	..	..	241.7	71.3	155.8

335. Out of the customs duties realised, the amounts debited at Viramgam and subsequently refunded have been Rs. 34.42 lakhs in 1927-28, Rs. 62.22 lakhs in 1928-29, Rs. 75.15 lakhs in 1929-30 (of which Rs. 71.63 lakhs is on account of sugar) and Rs. 111.81 lakhs in 1930-31 (of which Rs. 110.10 lakhs is on account of sugar). No merchandise is handled at Rozi. Its landing stage, connected by road and rail to Jamnagar, is used exclusively for mails and passenger traffic to and from Cutch.

#### NAVLAKHI.

336. The principal port of the State of Morvi is Navlakhi, which is curiously situated on a spit of land in a tidal creek within the Little Gulf of Cutch. The lay-out of this port is somewhat cramped, and large vessels can only come within a mile or so of the port when the tide is suitable, after negotiating mud banks at the entry to the Little Gulf. However, as the port is not exposed, it can be kept open throughout the year. There is fairly extensive warehouse accommodation and direct railway connexion with Morvi City, and crane facilities are being provided, while there is no lack of tugs and lighters to handle cargo from ocean-going steamers. Some Rs. 25 lakhs have already been spent in developing the port and about Rs. 9 lakhs more are now being expended. In 1930-31 there



was a total of 45 vessels calling at the port. The value of the trade and the customs duties realised is as given below :—

	<i>Value of Imports.</i>	<i>Value of Exports.</i>	<i>Customs duties on Imports.</i>
	<i>(Rs. lakhs).</i>		
1926-27 .. .. .	8.85	7.34	1.49
1927-28 .. .. .	12.72	9.01	1.40
1928-29 .. .. .	25.91	20.52	2.41
1929-30 .. .. .	12.34	19.54	1.85
1930-31 .. .. .	43.34	13.03	4.63

Of the total customs collected, the amount registered at Viramgam was Rs. .33 lakhs in the year 1930-31, out of which total sugar was responsible for Rs. .21 lakhs.

#### **Extent of immunity from contribution to central revenues, 1930-31.**

337. We have now dealt with all the principal ports of Kathiawar, but our list by no means embraces all places on that long coast-line at which sea-borne goods are landed and shipped. In the trade and customs figures given, we have, however, included under the principal port of each State the figures for the minor landing places within that State, so far as information was available to us.

338. The following table gives a summary of the figures (1930-31) for those States which are subject to the orders arising out of the re-establishment of the Viramgam Line :—

	<i>Value of Foreign Imports.</i>	<i>Value of Exports.</i>	<i>Customs duties on Imports.</i>	<i>Amount retained by State.</i>
	<i>(Rs. Lakhs).</i>			
Janjira .. .. . (Jafarabad)	6.25	7.03	.45	.45
Junagadh .. .. .	28.92	16.39	13.71	13.71
Mangrol .. .. .	not available		1.18	1.18
Okha .. .. . (Baroda)	60.25	12.12	14.65	3.80
Porbandar .. .. .	78.61	48.42	5.06	5.06
Nawanagar .. .. .	241.70	71.30	155.80	44.00
Morvi .. .. .	43.24	13.03	4.63	4.63

It is the figures given in the last column which, while the Viramgam Line is maintained, are those to be considered as defining

the extent of the immunity which the States, with the exception of Bhavnagar, enjoyed in 1930-31 from contribution to central revenues. Mangrol is not grouped with Junagadh, for the reason that the customs collections at Mangrol port are not received by Junagadh State. It will be noticed that the Viramgam refund system has come into application in the cases of Nawanagar and Baroda only.

339. As has already been shown, the customs collections at Bhavnagar are entirely retained by that State. They amounted in 1930-31 to Rs. 51.05 lakhs, and it is that sum which represents the value, for that year at any rate, of Bhavnagar's "existing rights", as well as the extent of its immunity from contribution to central customs revenue.

340. Including Bhavnagar's imports and exports, valued in 1930-31 at Rs. 387.60 lakhs, and including an estimate of Rs. 5 lakhs for Mangrol, the total value of foreign trade passing through Kathiawar States ports in 1930-31 was about Rs. 1,020 lakhs, Bhavnagar and Nawanagar between them accounting for nearly 70 per cent. of the total. But, considerable though the trade of the Kathiawar States ports is, the figures given for 1930-31 only represent 2.94 per cent. of the foreign trade of all India in the same year.

341. The whole customs revenue of the Kathiawar ports (including Bhavnagar) for 1930-31 was Rs. 246.53 lakhs. Of this total Rs. 122.65 lakhs were recovered for central revenues at the Viramgam Line and Rs. 123.88 lakhs remained in possession of the States, of which about 41 per cent. represented the share of Bhavnagar and about 36 per cent. the portion retained by Nawanagar.

#### **The Viramgam Line and future customs arrangements in Kathiawar.**

342. We have stated the extent of the States' immunity in 1930-31 from contribution to central revenue with the Viramgam Line in operation. The States affected have without exception entered strong protests against its reimposition. They do not suggest that the imposition of a customs barrier between themselves and British Indian territory is in itself irregular—indeed the indisputable sovereign rights of the Government of India would forbid any such suggestion—but they hold that its reimposition is in contravention of the Agreement of 1917.

343. We have referred to the appeal which His Highness the Jam Sahib has lodged with the Secretary of State; but it is necessary for us to consider, apart from this case, what the value of the customs rights of these States is likely to be in different contingencies. If as the result of the appeal the orders passed by the Government of India in 1927 are upheld, it is understood that the Agreement of 1917 lapses as a whole, and that the Kathiawar maritime States are released from their undertaking to levy customs duties at their ports at rates not less than those for the time being fixed for British Indian ports. So long as the States decline to accept the reimposition of the Viramgam Line as final, they

regard the Agreement of 1917 as still in force and will not take advantage of any remission of restrictions by which they now hold themselves to be bound. But, if the Viramgam Line of finally established, the incentive to a tariff war for the trade of Kathiawar between the port-owning States will be very strong and they will be at full liberty to engage upon it. The representatives of one State informed us of their intention to attract import trade by cutting their tariff as soon as the restrictions imposed by the Agreement of 1917 could be regarded as null and void, and it only requires one State to initiate such a policy for all to follow suit. Already there are sufficient complications in Kathiawar arising from the divided ownership of the railways which, within prescribed limits, enables some maritime States to offer better terms to import trade than others. If to this a tariff war is added, any figures we might give as an estimation of customs rights, and of the immunity from contribution to central customs revenue could have no value.

344. Kathiawar does not however consist only of the maritime States we have mentioned, but includes also the inland States of Dhrangadhra, Dhrol, Gondal, Limbdi, Palitana, Rajkot, Wankaner, Wadhwan and many other States with a total population of 1,439,000, as compared with the 1,695,000 population of the States on the sea-coast. As the Viramgam Line is on the inland side of the Kathiawar States taken as a whole, or in other words, along the British Indian frontier, the ports of Kathiawar have full and free access to the non-maritime States above mentioned as well as to their own territory. The duties which are ultimately borne by the population of the non-maritime States thus pass into, and are retained in, the coffers of the maritime States. The effect of this is that the inland States, drawing, as they naturally do, their overseas imports from the nearest ports, are disabled under existing arrangements from making any contribution to central customs revenue, an invidious position for them to be compelled to occupy and one which, on the principles explained in our concluding Chapter, involves a debit being raised against them as possessing a full immunity in this respect.

345. If we cannot assume the retention of the Viramgam Line under Federation and have no means of knowing whether such an accommodation will be reached as will enable the line to be removed, we are confronted with the necessity of considering the effect of its advancement to the inland borders of the maritime States, thus enabling the inland States to make their full contribution to the central customs revenue. We are aware that this could only be accomplished with the consent and co-operation of such inland States as might be concerned (though their entry into Federation would imply such consent and co-operation), and we desire to emphasize our dislike equally of the retention of the Viramgam Line as now established and of its erection elsewhere under any other name. But, to give some idea as to what amount of customs duties would be retained by the maritime States on the

basis of 1930-31 figures under each of the three alternatives, we append the following table :—

	<i>Maintenance of Viramgam Line as now existing.</i>	<i>Abolition of Viramgam Line.</i>	<i>Establishment of Customs barrier between Maritime and Inland States.</i>
	(Rs. lakhs.)		
Bhavnagar .. ..	51.05	51.05	51.05
Janjira (Jafarabad) ..	.45	.45	.37
Junagadh .. ..	13.71	13.71	16.71
Mangrol .. ..	1.18	1.18	.75
Porbandar .. ..	5.06	5.06	3.55
Baroda (Okha) .. ..	3.80	14.65	5.39
Nawanagar .. ..	44.00	155.80	12.57
Morvi .. ..	4.63	4.63	3.46
Totals .. ..	123.88	246.53	93.85

The last column is calculated on the assumption that imported goods for use within a State are all imported through that State's own ports and that sea customs duties in respect thereof are retained on the basis of the population of that State alone. In the case of Baroda the calculation is made on the basis of that State's Kathiawar possessions only. Bhavnagar's privileged position renders that State immune from the effect of customs barriers. If Bhavnagar's retention of customs duties was based upon the population of that State, the sum which it would retain on the basis of 1930-31 figures would be Rs. 15.33 lakhs.

### (3) Other Maritime States.

346. We have now completed our survey of the two main groups of Indian States ports—the group in South India and the Kathiawar group—and pass to the ports of maritime States not included in either of these groups.

#### CAMBAY.

347. At the head of the Gulf of Cambay lie the State and port of that name, encircled by the Gujerat territories of British India. In bygone years the port of Cambay was reckoned as one of the chief ports of India, but the inexorable processes of siltation have reduced its present-day importance to very small proportions, and it is now practically inaccessible to shipping other than country craft. The present Nawab and his advisers are anxious to retrieve some of the ancient glories of the port, but such a policy would clearly entail heavy expenditure with no very adequate prospect of



success. Under an agreement concluded in 1885 the then Nawab agreed to adopt the British Indian customs tariff and rules of administration, and to permit a full measure of inspection. Under an older treaty the East India Company had acquired a nominal half share in the sea and land customs of Cambay, which had previously belonged to the Peshwa. The agreement of 1885 contained a clause by which the British Indian share in the sea customs was commuted for an annual payment of Rs. 200, but a supplementary declaration waived this right in consideration of the conclusion of the main agreement.

348. By virtue of an arrangement arrived at in 1865 the port of Cambay was then notified as a customs port for purposes of the levy of customs duty and the conduct of coastal trade. The result of this is that no duties are levied on any trade between British India ports and Cambay, but that no drawback is allowed on goods charged with duty at a British Indian port and re-exported to Cambay. Free transhipment at British Indian ports of foreign cargoes consigned to Cambay is not allowed. There is no discrimination against Cambay in this. The law makes the grant of permission to tranship goods discretionary, no matter whether the goods are consigned to a foreign or to a customs port. Transhipment of dutiable goods to any customs port on the Bombay coast south of Kathiawar (except Bombay itself) is not allowed, and many more British than State ports are affected by this prohibition. This longstanding practice, which was confirmed by a Notification of the Government of India issued in 1927, is justified on two grounds, firstly, the administrative difficulty in equipping all these minor ports with a staff competent to deal with the whole of a complicated tariff and not merely the special classes of goods that are normally imported direct, and secondly, the risk of smuggling which arises from the fact that the bulk of the traffic is, and in many cases must be, carried coastwise by country craft. The customs collections at the port of Cambay now average about Rs. 9,000 per annum, which sum represents the extent of the State's immunity from contribution to central customs revenue.

#### JANJIRA.

349. The State of Janjira, on the sea-board south of Bombay, possesses in Kathiawar a small area of territory at Jafarabad, which has already been described in para. 320. The parent State is encircled by British Indian territory and has no rail connexions with that territory. Its port trade is wholly local. By an agreement concluded in 1884 the Nawab agreed to adopt the British Indian tariff and customs system at his ports and to assimilate port dues to the scale in force at neighbouring British ports. He also agreed to give full facilities for the inspection of his customs houses by the Political Agent, and to abolish land customs and transit duties. In return for these concessions the land customs cordon hitherto maintained against the State was removed, no duty was required to be charged on articles imported at Janjira ports for the use of the Nawab and his family, and the Government of

India undertook to pay annually to the Nawab a sum of Rs. 13,000. This compensation was not only in respect of the customs arrangements referred to above, but also in respect of an undertaking to prevent all contraband trade and smuggling of salt, opium and liquor, and to suppress salt manufacture and the import of untaxed salt. The customs collections at the Janjira ports have averaged about Rs. 20,000 per annum during the last five years, and this sum represents the extent of the State's immunity from contribution to central customs revenue.

#### SAVANTWADI.

350. This State has a considerable land frontier with Portuguese Goa and, though it has no sea frontage, is a maritime State in a limited sense, in that it has access to the sea by the creek of Terekhol. By an Agreement concluded in 1838 the Ruler renounced all claim to the sea and land customs which he had hitherto levied, and made over to the East India Company's Government the right of establishing customs posts on his frontier as well as at the port of Banda on the creek of Terekhol. In return the Company agreed to pay him (a) compensation for loss of customs revenue, based on the average of the collections of the preceding three years, and (b) Rs. 500 in respect of customs duties levied on goods imported via Goa for his own use. The compensation payable under (a) was fixed at Rs. 13,443, of which Rs. 1,700 appears to be on account of the abolition of land customs. The average customs revenue collected by the Government of India during the last five years by virtue of its rights in Savantwadi is Rs. 19,277, of which only about Rs. 1,300 relates to the Savantwadi port of Aronda (which has been substituted for Banda owing to the silting up of the creek), the remainder being collected on the Goa frontier. The State's rights in respect of sea customs are defined by the compensation payment of Rs. 13,433, less the Rs. 1,700 allotted for abolition of land customs, and this figure also represents the extent of its immunity from contribution to central customs revenue.

#### CUTCH.

351. The island State of Cutch, with its extensive sea-board, has a number of beach landing-places for the service of local needs, but there are only two ports calling for mention, namely, Mandvi and Kandla. Mandvi consists of an open roadstead with a small masonry jetty on the west side and a tidal creek or river bed on the east, protected by a groyne. The lay-out of these structures has been unfortunately designed, and the port suffers from large accumulations of sand on its west side and a tendency to siltation on the east. No important facilities are provided, nor is there much in the way of warehouse accommodation, and there are no railway connexions. The port, at which in 1930-31 261 vessels called, is closed during monsoon months. Kandla, which is situated far up the Gulf of Cutch, is an altogether more ambitious project. It comprises a well-built ferro-concrete pier with good approach and ample water at all states of the tide; direct railway service on to the pier, with cranes about to be provided; railway connexion with Bhuj, the capital of the State; more than sufficient warehousing

accommodation for the present amount of trade, with room for development ; and it is protected from monsoon weather.

352. The value of the trade now handled at Mandvi is shown below, but there are no figures to give for Kandla, which deals with very little trade at present, though if, as desired by the State, it were connected by rail with the mainland of India, the position would doubtless be very different.

		<i>Value of Imports.</i>	<i>Value of Exports.</i>	<i>Total sea customs from Imports. and Exports.</i>
		<i>(Rs. lakhs.)</i>		
1926-27	.. ..	65.21	1.57	4.17
1927-28	.. ..	57.17	1.91	3.90
1928-29	.. ..	66.52	1.79	4.50
1929-30	.. ..	74.3	1.43	4.54
1930-31	.. ..	64.7	1.07	4.08

Including the trade of the beach ports referred to, the average amount of Cutch customs over the last few years may be taken at Rs. 8 lakhs per annum. At Cutch ports sugar is not a relatively large import, the value at Mandvi being Rs. 7.91 out of 64.7 lakhs in the year 1930-31.

353. The State of Cutch has always preferred to remain in commercial isolation from the rest of India and has hitherto succeeded in maintaining that position. It has therefore no treaty rights, though it has the right to, and does, levy sea customs on a tariff which differs from that of British India and is, in this respect, unique. As stated, the revenue collected in this way has averaged during the last five years about Rs. 8 lakhs, which constitutes rather more than 25 per cent. of the total revenue of the State. On the assumption that the State of Cutch becomes a federating unit, these Rs. 8 lakhs, or such modification of that figure as the application of the British Indian sea customs tariff would effect, represent the amount to be taken into consideration for federal purposes. The policy of isolation hitherto consistently adopted by Cutch has left the Government of India no alternative but to treat the State, for customs purposes, as a foreign country. The State claims that this treatment is a violation of Article 15 of the Cutch Treaty of 1819 which provides that "the Cutch ports shall be open to all British vessels in like manner as British ports shall be free to all vessels of Cutch, in order that the most friendly intercourse may be carried on between the Governments." It appears, however, that this article has no relevance in respect of the imposition of customs duties.

354. The Cutch State is now contemplating an abandonment of its traditional policy of isolation, and desires to link up the port

of Kandla with the metre gauge railway system of India at Ranikwar, on the Jodhpur State Railway, on the mainland side of the Rann of Cutch. The possible effect on the customs revenues of the Government of India or the Federal Government of the establishment of any such new line of communication between Rajputana and the sea is a serious political and administrative problem which it is not within our province to discuss.

#### SACHIN.

355. Sachin (area 49 square miles, population about 20,000) is situated on the Gujerat coast near Surat. It has no port or sea-borne trade and there is consequently no collection of customs, but our list of maritime States would be incomplete without mentioning this small State.

#### Special claims of Baroda.

356. The territories of the Gaekwar consist of five different areas, separated from one another by considerable distances. Of these, the divisions of Navsari, Baroda and Kadi are in Gujerat and those of Amreli and Okhamandal in Kathiawar. Baroda is a maritime State in Gujerat in respect of Navsari, and, in Kathiawar, in respect of both districts in that peninsula. The "ascertained existing rights" of the State, so far as they are concerned with Port Okha, have already been dealt with above, and inasmuch as Baroda's rights in Gujerat are not "ascertained," its claims in respect of them being now before the Government of India and therefore *sub judice*, they do not fall within our Terms of Reference. Our record of the maritime States would nevertheless be incomplete without an account of the Baroda case.

357. The Baroda Government claims that its rights and liabilities in respect of ports and customs in Kathiawar are defined by a Treaty of 1817 with the East India Company and by an engagement of 1865 with the Government of India. By the former, mutual freedom of commerce, navigation and transit was established, while under the latter Baroda claims to be a member of a Customs Union with British India and to be entitled to develop its ports and to retain all the customs revenue collected at them. The State therefore held that the Kathiawar arrangement of 1917 did not affect its own status and, in protesting against the reimposition of the Viramgam Line, its grounds of protest were dissimilar from those of the other maritime States of Kathiawar.

358. Important though the existence of the Viramgam Line is to all Kathiawar maritime States, it is of prime importance to Baroda. Okhamandal is an arid, almost desert, tract, which, except for the small and ancient walled city of Dwarka, not so long since dissuaded by force of arms from offering shelter to a vigorous community of pirates, supports practically no population other than that which has sprung up about the modern port and adjoining salt works. The imports of Okha go to the Gujerat possessions of the Gaekwar, and in doing so they must pass, and pay duty at, the Viramgam Line. Okha enjoys freedom to retain customs duties on such of its imports



as are consumed in Kathiawar, but we think that the Baroda Government would prefer to surrender this privilege and to withdraw any claim to retain customs duties on goods intended for British India, in return for the right to retain the duties on imports into the Gujerat territories of the State.

359. The Gaekwar of Baroda, while independent and an ally in respect of certain territories, was in fief to the Peshwa in respect of others, both in Kathiawar and Gujerat, and in 1861 the Secretary of State gave a decision that the Government of India, as the inheritor of the Peshwa's suzerainty, had the right to forbid the opening of ports on the Gujerat sea-board of Baroda State. The Baroda Government has protested that the suzerainty of the Peshwa did not include this right, and claims to be able to prove its contention from new evidence which has recently come to light. At the present time the State is forbidden to open ports on its Gujerat coast, and if this prohibition was withdrawn it would even then—failing admission of its claims under the Agreement of 1865 with consequent inability to demand the transit of its goods in bond—be unable to secure immunity from the incidence of British Indian customs duties for its inland district of Kadi, or even to serve the districts of Baroda and Navsari by one and the same port, since these two districts are separated by an intervening portion of British Indian territory.

360. Under the partition of Gujerat made between the Gaekwar and the Peshwa in 1752, the customs revenues of the ports of Navsari and Billimora, situated on the Gujerat sea-board of the Navsari Division of Baroda State, were allotted to the Peshwa, who transferred them to the British Government in 1802 by the Treaty of Bassein. A peculiar position has thus arisen, for the Government of India are in possession, not only of customs administration, but of the customs revenue also, at these two ports in Baroda State. The rights of the case are not disputed, but the not unnatural result is that Baroda takes but small interest in the trade of these ports, as is demonstrated by the fact that the average customs collections at Billimora and Navsari for the last 5 years have been Rs. 7,380 and Rs. 914 respectively.

#### (4) Inland States entitled to or claiming an interest in sea customs.

##### HYDERABAD.

361. The great State of Hyderabad is not a maritime State, but it is necessary to refer to it in this Chapter by reason of the claims which the Nizam's Government bases on certain articles of the Hyderabad Commercial Treaty of 1802.

Articles 1 and 3 of the Treaty are as follows :—

“ As the testimony of the firm friendship, union and attachment subsisting between the Honourable Company and H. H. the Nawab Asuph Jah, the Honourable Company hereby agree to grant to His Highness the free use of the seaport of Masulipatam, at which port His Highness shall be at liberty to establish a commercial factory and agents, under such regulations as the nature of the Company's Government shall

require and as shall be adjusted between the Governor-General in Council and His said Highness."

\* \* \* \* \*

"There shall be free transit between the territories of the contracting parties of all articles being the growth, produce or manufacture of each respectively; and also of all articles being the growth, produce or manufacture of any part of His Britannic Majesty's Dominions."

362. The claims which the Nizam's Government bases on these articles are as follows :—

(1) The right to a free corridor to the sea at Masulipatam and a permit to develop a port so as to enable Hyderabad to make effective use of it "under the conditions that would obtain in the India of the future." The Nizam's Government urges that "this consideration renders it very necessary that Hyderabad should own and control a railway of its own from its border to Masulipatam."

(2) A right to import free of British Indian customs through any port, or overland from beyond British India, all articles which are the growth, produce or manufacture of any part of His Majesty's dominions, together with a corresponding right to export free of duty all articles of Hyderabad origin.

363. With regard to the first claim, it should be explained that the seaport of Masulipatam is situated in British India 60 miles from the borders of Hyderabad. It has no harbour facilities and but little present value as a port for ocean-going traffic, and it is possible to regard running rights over a railway crossing British India, as well as the right to develop a port on the British Indian sea-board, as a necessary preliminary to any service which the "free use" of Masulipatam, in the sense in which those words are interpreted by Hyderabad, could render to the State. We express no opinion as to the meaning of the words.

364. With regard to the second claim the Government of India in 1873 gave an interpretation adverse to that now put forward by Hyderabad. This, however, was in answer to a claim advanced by certain merchants, and the question has never been at issue as between the Government of India and the Nizam's Government itself.

365. We understand that the Nizam's Government have now addressed the Government of India with a view to the respective rights of the contracting parties being ascertained. It is not, therefore, for us to make any comment upon it beyond observing that, in the event of the claim being established, Hyderabad would achieve a position substantially the same as that of Kashmir (of which we give an account below) and that the effect on the federal customs revenue would be very serious indeed. We were, however, gratified to learn in the course of our discussions at Hyderabad that the State would not necessarily insist upon exercising the rights in question.

## KASHMIR.

366. The frontier State of Kashmir, largest in area of all Indian States, has an interest in sea customs arising from rights accorded by Treaty. Under a Treaty of 1870 the State undertook to refrain from taxing all merchandise passing through the State by the Central Asian trade route, thus establishing free trade between British India and Central Asia. In return for the loss of revenue thus occasioned, the State was accorded the privilege of importing sea-born goods in bond. The administrative arrangements by which this is effected are simple. All goods imported in bond into the State are covered by invoices showing the amount of duty paid at the port of entry. These amounts are credited to the Darbar on the authority of endorsements made on the invoices by the Kashmir Residency authorities. At the time of the conclusion of the Treaty the trade traffic to and from Central Asia was substantial ; on the other hand the privilege accorded, in return for freeing this trade from taxation, was of trifling value and even at the beginning of the present century was not worth more to the State than 1½ lakhs of rupees a year. But in recent years the position has been reversed ; the value of the land trade has declined and the customs value of the goods imported in bond into the State greatly increased. The amount of customs revenue thus forgone has risen as high as Rs. 29 lakhs, and the fair average value of the State's customs rights at the present time could not be reckoned as less than Rs. 25 lakhs per annum.

367. The Central Asian trade passing through Kashmir had a total value of Rs. 20.94 lakhs in the year 1929-30, the chief items of import being silk (Rs. 4.6 lakhs) and charas (Rs. 1.63 lakhs) ; and of export, cotton (Rs. 3 lakhs) and silk goods (Rs. 2.86 lakhs). While we are unable to state what the duty value of this trade may have been, we would draw special attention to the imports of charas. This drug is imported in bond to centres in British India and there taxed. Had it not been for the treaty with Kashmir, an important item of the excise revenues of many provinces and States might have been seriously affected.

368. We must not overlook here the responsibility undertaken by Kashmir for watch and ward over a long span of India's northern frontier, for the purpose of which the State maintains forces at its own expense.

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**Relative value of British Indian and States' sea-borne trade and customs receipts.**

369. The circumstances of every Indian State possessing an interest in sea customs have now been described and, to complete the information which it is necessary to furnish, we present a statement of figures showing the relative importance to a federal government of the subject with which this Chapter set out to deal. The figures for 1931-32 were not available during the progress of our tour of the States, and those we give have reference to the year 1930-31. In respect of trade figures we were unable in the case of a few very

minor ports to obtain information as to volume and value and have had to content ourselves with an estimate. As regards customs collections the statement is complete.

370. The figures given of the value of the trade passing through Indian States ports exclude the trade at the British Indian port of Cochin, but the figures for customs collections include the two-thirds of the Cochin customs which belong to the States of Travancore and Cochin. The total value of the foreign trade conducted by Indian States ports in 1930-31 was Rs. 15.50 lakhs. The total foreign trade of British India and the Indian States in the same year was Rs. 361.82 lakhs, the percentage conducted through the States ports therefore being 4.28 per cent. The customs collections at Indian States ports in 1930-31 amounted to Rs. 280.78 lakhs, of which Rs. 122.65 lakhs was recovered for British India at the Viramgam line, leaving Rs. 158.13 lakhs in possession of the States. The total sea customs collections for British India and the Indian States in 1930-31 amounted to Rs. 39,46.94 lakhs. Thus the amount retained by the States was 4 per cent. of the whole. The sum retained by the States does not represent the total extent of the immunity from contribution in respect of sea customs enjoyed by the States, as that immunity is not calculated in all instances upon customs revenue directly collected and retained. The aggregate extent of this immunity was Rs. 182.42 lakhs in 1930-31, the detail of which will be found in Appendix VI.

### **Circumstances affecting the task of valuing States' customs rights.**

371. We are directed "to express an opinion as to what compensation it would be worth while for the Federal Government to offer in return for the relinquishment of the special privileges which each State now enjoys or such modification thereof as may appear to the Committee to be an essential preliminary to Federation," and we now propose to deal with this subject. It is no exaggeration to say that at no time within the past ten years has the difficulty attending a valuation of customs rights possessed by the Indian States been greater than at present. It has been authoritatively stated that "the value of international trade to-day is only one-half, or perhaps less than one-half, what it was in the first quarter of 1929. The number of unemployed has more than doubled. According to the figures of the International Labour Office, from 20 to 25 million persons are now without work. The situation daily grows worse."

372. Though, happily, the unemployment problem in India is far less acute than in many other countries, the figures of India's overseas trade which we have given in this Chapter show that the above description is not inapplicable to India also. But the mere comparison of total trade figures alone would be misleading, since they cover the action of two variables—volume of trade and level of prices—and the present relation of these two variables to one another is not necessarily of a normal kind. nor, indeed, is it the same for all commodities. Ordinarily, any reduction in price induces an increased demand from the consumer, which tends to neutralize the effect of



price-reduction on total figures of trade. But in the present economic crisis this result has by no means always followed. In too many cases no amount of price-reduction has availed to produce an adequate increased demand; on the contrary, the two downward movements have synchronized with disastrous effect on the totals. There are exceptions; it will have been noted, for example, that both at Cochin and in Kathiawar the volume of trade has not fallen to the same extent as at certain major ports in British India, for the reason that the low level of prices for sugar and rice has in fact produced increased demand. But in many other directions we have at the present time both adverse factors definitely apparent and, as a result, a total volume of trade which cannot be regarded as typical of India's normal trading capacity. There is also the question of India's fiscal policy. The protective duties on iron and steel, cotton piece-goods, matches, and sugar, have produced effects varying in their intensity but of great and growing importance, and the general policy of protection introduces an incalculable factor.

373. The following table gives in paralld columns the total import duties and those duties which are protective and are charged at special rates. Sugar, which has only recently come under a protective tariff, is not included.

(Rs. lakhs.)

		<i>Import Duties on articles liable to protective duty at special rates.</i>				
		<i>Total of Im- port Duties, excluding salt.</i>	<i>Iron and Steel.</i>	<i>Paper.</i>	<i>Matches, splints and veneer.</i>	<i>*Cotton piece- goods.</i>
1927-28	..	40,46.11	2,96.47	25.34	53.62	..
1928-29	..	40,83.65	2,62.45	28.10	25.27	..
1929-30	..	40,72.85	2,13.15	29.40	13.94	..
1930-31	..	37,18.87	1,43.39	20.91	3.74	3,73.39
1931-32	..	36,03.61	1,15.74	20.35	1.08	3,70.87

\*This item was transferred to the "Protective Duty Group" with effect from 4th April, 1930. The previous year's (1929-30) importations carried a total duty of Rs. 5,83.68 lakhs.

374. With factors so variable and subject to so many influences in respect of which prophecy is impossible, we are of opinion that we can neither safely nor usefully make an estimate of the amount of compensation which it would be worth the while of the Federal Government to offer to the States in return for the relinquishment of customs rights, assuming that they were willing to relinquish them. Nevertheless, there are certain directions in which we think that our comment may be of service.

## General Conclusions and Recommendations.

### (1) COCHIN PORT.

375. We are impressed with the potential importance of the port of Cochin as an economic factor in a federated India. We are, however, strongly of opinion that the proper development of the port will be seriously hampered and its potentialities unlikely to become realities, if the conditions which now prevail are not changed. We have come to this conclusion on two grounds, one concerned with the ownership and geographical situation of the port, the other with the manner in which its developments have been financed.

376. On the first point, we have already shown how the port, which was in its origin, and is still to a large extent, a British Indian port under the control of the Government of Madras, now extends into Cochin territory, and will extend still further if and when the present development scheme is completed. A divided ownership and jurisdiction cannot but be harmful to the best interests of the port, and in our opinion it is urgent that steps should be taken to effect the adjustments required.

377. On the second point, we recall that under the Agreement of 1925 Travancore and Cochin may each be required to provide a further sum of Rs. 30 lakhs or more in order to complete the development scheme. It is reasonably clear that the revenue of the port, as distinct from the customs revenue collected there, will not, at any rate for a number of years, produce an income sufficient to pay interest and sinking fund charges on the further expenditure which is contemplated, since port dues cannot be increased beyond a certain figure without driving trade away. It therefore follows that the money to be found by Travancore and Cochin will take the form of grants in aid earning no interest, and that the only source from which those States could recoup themselves would be from the increased value of their agreed share in the customs receipts.

378. We recommend therefore that negotiations with Cochin for the adjustment of the difficulties arising from the divided ownership of the port, and with Travancore and Cochin for the purchase of their existing rights in its customs revenue, should not be delayed. With regard to the first, we understand that the subject is already under discussion between the parties concerned. With regard to the second, it is difficult to suggest an appropriate basis of any offer which might be made. A figure based upon present receipts would necessarily be of a speculative character, and it must be borne in mind that a further large sum will require to be expended before the port is fully developed; but, since a speculative element must enter into the matter, it is far preferable that the risk should be assumed by a federal Government, which will have the economic interests of India as a whole in its charge, rather than that Travancore and Cochin should continue the present system of grants in aid in the expectation, though without any certainty of increasing their domestic revenues by a possible rise in the value of their share under the 1925 Agreement in the future customs revenue of the port.

379. There is no question here of a cession of rights arising from sovereignty. The rights of the States concerned came into existence as the consequence of a mutual exchange of valuable considerations. They are in effect commercial rights, which should be susceptible of adjustment on a commercial basis agreeable to both parties, and we hope and believe that no real difficulty need be anticipated in bringing the parties together for this purpose.

## (2) OTHER PORTS.

380. The case of the ports wholly owned by maritime States is substantially different. The customs rights of the Kathiawar and other States are, with very few exceptions, not the creation of any Treaty or Agreement but exist by virtue of the States' own sovereignty. They are rights cherished not only because of their financial importance, but also because they are the outward symbol of much that the States greatly prize. Indeed, in many instances the very existence of a State may be said to be bound up with its port. We understand and appreciate this point of view, but nevertheless we find it hard to reconcile with the ideal of a true Federation the retention by any federal unit of its own sea customs receipts. Certain maritime States have stressed the point that the surrender of the right, possessed and exercised by most States, to levy land customs duties, is not in contemplation. But the analogy is a false one, for inland customs duties, in so far as they are levied on goods from overseas, are an addition to the duties already paid at the ports, and their collection by the inland States does not subtract from the general customs revenues of the Federation.

381. We are, however, convinced as the result of our enquiries that no port-owning State is likely to surrender its customs rights, even in return for full compensation. We have, moreover, already stated our opinion that on many grounds—the nature of the rights, whether under Treaty or by virtue of sovereignty possessed by the maritime States; the impossibility of forecasting the future of trade or fiscal policy; the probability that, in some cases at any rate, natural processes are likely to produce a progressive deterioration in the value of a port—it would not be advisable for any offer to be made at the present time for the acquisition of the customs rights of the States, other than those rights possessed by Travancore and Cochin in the port of Cochin.

382. If, therefore, the port-owning States are to enter Federation, as everyone must desire that they should, room must be found for a compromise in which ideals and logic would yield in some measure to hard facts. An arrangement whereby the maritime States were at least enabled to retain in their own hands the value of the duties on goods imported through their ports for consumption by their own subjects, even though it would involve some slight diminution of federal revenues, might well be accepted in a federal scheme embracing so many diverse elements. In recommending that it be considered how far such an arrangement would be practicable, we do not exclude the possibility of modifications or adjustments to meet local circumstances.

383. No arrangement of this kind could be contemplated in cases where it would conflict with Treaty rights. In cases where the situation is not complicated by the existence of such rights, it would involve either some system of financial adjustment whereby the State would retain or have refunded to it the amount which, consistently with the suggested principle, it was entitled to receive, or else the maintenance, where necessary, of a customs barrier. If the second alternative were adopted, there would of course be no question of any control or inspection by federal authority of the customs administration at the ports, which would continue exclusively in the hands of the State itself. The first alternative, on the other hand, would clearly involve some measure of federal supervision or inspection.

### **Summary of Conclusions and Recommendations.**

After setting out some of the difficulties in the way of bringing the views of the States with regard to their ports into harmony with the requirements of Federation, we give a general account of all the ports belonging to the maritime States (paras. 239-250).

The Treaty rights of Travancore and Cochin in the port of Cochin are described, with special reference to the Inter-portal Convention of 1865 and the Four-party Port Agreement of 1925 (paras. 251-265).

We examine a claim by Travancore under the Convention of 1865, and give our reasons for being unable to regard it as giving rise to "ascertained existing rights" within our Terms of Reference (paras. 266-274).

We note the value to Travancore and Cochin at the present time of their ascertained rights under the Agreement of 1925 and draw attention to various factors which may substantially affect that value in the near future (paras. 275-283).

After a general description of the Kathiawar peninsula, we give the history of the Viramgam Line, of its abolition in 1917, and of its reimposition in 1927 after the failure of the Mount Abu conference. The action taken by the Government of India on the representations submitted by Nawanagar, Junagadh, Morvi and Porbandar after the reimposition of the Viramgam Line is also described (paras. 284-311).

An account is given of the special Treaty rights of Bhavnagar (paras. 312-317).

An account is given of the physical characteristics and trade of the ports of Bhavnagar, Jafarabad, Veraval, Mangrol, Porbandar, Okha, Bedi Bandar and Navlakhi, and of the value of the customs collections retained by them since the reimposition of the Viramgam Line (paras. 318-336).

We give an estimate of the yield of customs collections by the maritime States of Kathiawar on alternative assumptions:—(1) that the Viramgam Line is maintained as at present, (2) that the Line is wholly abolished, and (3) that the Line is advanced so as to

divide the inland States from the maritime States of Kathiawar (paras. 337-345).

We survey the existing position in regard to certain other maritime States outside Kathiawar, viz., Cambay, Janjira, Savantwadi, Cutch and Sachin (paras. 346-355).

We examine certain special claims by Baroda (paras. 356-360).

The special cases of the Treaty claims and rights of Hyderabad and Kashmir are dealt with (paras. 361-368).

We explain the difficulty of making any estimate at the present time of the value of the existing rights of maritime States (paras. 369-374).

We recommend that negotiations should be begun for the purchase of the rights of Travancore and Cochin in Cochin port and that steps should be taken to adjust the difficulties which arise from the present divided ownership and jurisdiction of the port (paras. 375-379).

For reasons stated in paras. 380-381, we find ourselves unable to recommend that any offer should be made at the present time for the acquisition of the customs rights of port-owning States.

We express the opinion that the ideal of a true Federation is difficult to reconcile with the retention by any federal unit of customs duties collected at its ports, but we recognise that no maritime State is likely to relinquish this right (paras. 380-381).

In order that no maritime State may be thereby prevented from entering Federation we recommend for consideration a compromise arrangement under which such States would be enabled to retain the duties on goods imported through their own ports for consumption by their own subjects. We recognise that no such arrangement could be made, except with the consent of the State concerned, when its effect would be to curtail Treaty rights (para. 382).

We discuss the methods by which such an arrangement could be made effective and the question whether it would necessarily involve any measure of inspection or supervision of customs administration by federal authority (para. 383).



## CHAPTER VIII.

## MISCELLANEOUS IMMUNITIES.

**Introductory.**

384. Our Terms of Reference provide us with authority to deal with such existing facts in the financial or contractual relations between the States and British India as are not specifically mentioned therein, but which have so close a bearing upon the matters remitted to us that they cannot be disregarded. We have found that there are certain prospective federal subjects, other than sea customs and salt, in respect of which some States enjoy a measure of immunity from contribution to central revenues, and we are therefore devoting this Chapter to discussion of them. In some cases, States retain their own postal systems and in many others have entered postal unity on terms which it is necessary to notice. There are also a considerable number of States which still possess and operate their own mints, and many instances of the receipt by States of compensation payments made for the abolition of land customs and transit duties. We also refer in this Chapter to the existence of certain courtesy concessions in respect of sea customs at present enjoyed by Indian Princes, and submit recommendations thereon.

**(1) Posts and Telegraphs.**

385. It became clear to us at a very early stage of our enquiries that it would be necessary for us to give detailed attention not only to the immunities possessed by many States in the sphere of Posts and Telegraphs, but also to the almost universal sense of dissatisfaction which we found to be prevailing amongst the States in regard to certain aspects of their relations with this important department. In the Memorandum which we issued for the information of States soon after our arrival in India (Appendix II), we referred specifically to postal privileges enjoyed by many States, but by no British Indian province, and asked the Darbars to afford information to enable us to judge the amount which would be diverted from what are *prima facie* the legitimate revenues of the Federal Government in the event of the continuation, under Federation, of their present privileges. In the main, however, as was only natural, our information in this respect had to be derived from official sources.

**The grievances of the States.**

386. It will be convenient to deal first with those aspects of the operations of the Posts and Telegraphs Department which have been referred to above as a source of grievance to the States in general. These may be briefly summarized as follows :—

- (i) It has commonly been believed by the States that the control of Posts and Telegraphs is a source of financial profit to the Government of India and, inasmuch as the operations of

the Department are carried on in State territory as well as in British India, the States have claimed that a proportionate share of such profits should be handed over to them.

(ii) In particular, they resent the departmental regulations under which they are required to give a cash guarantee in respect of any unremunerative post office opened for their administrative convenience, and argue that no such demand should be enforced without first giving them credit for all admittedly remunerative offices within their territories.

(iii) Several States object to the banking operations carried on by the Posts and Telegraphs Department, through the medium of the Postal Savings Bank and the issue of cash certificates. In some cases, it is complained that these operations compete unfairly with similar institutions maintained by the Darbars themselves, and unduly restrict their ability to raise loans from their subjects. By others it is alleged that these operations are of a profit-making nature, and that such profits should accrue to themselves rather than to the Government of India.

(iv) There is wide resentment against the operation of the "Mail robbery rules" under which Darbars can be required by the Government of India to make good any losses resulting from robbery of mails in transit through their territories.

(v) Many States which are in receipt of grants of free service stamps complain that these are inadequate to their needs, whilst others who do not enjoy this privilege urge their claims thereto.

387. All these grievances had been fully represented to the Butler Committee and have since received in that connection the sympathetic consideration of the Government of India. The States, however, were unaware of those developments and almost all of them have looked to us for redress. In the circumstances it seems desirable that we should review as briefly as possible the existing position as it appears to us.

#### **(i) Claim to share in the revenues of the Posts and Telegraphs Department.**

388. Bound as we are to approach the matter from the federal standpoint, we are unable to regard with sympathy any claim for a share in the alleged profits of the Posts and Telegraphs Department. The detailed accounts prepared by the Department show that, so far from there being any such profits, there is in fact a serious loss on the working of the Department as a whole. Even if profit were made, the present official policy would be to apply it to the extension and cheapening of postal facilities rather than to credit it to general revenues. But, whatever the facts or the policy may be, we feel confidence in affirming the principle that, if Posts and Telegraphs is to be a federal subject, all receipts therefrom must accrue to the Federal Government and cannot be made available for distribution among federating units.

## (ii) The "guarantee" system.

389. The above principle does not afford a full reply to those States which entertain the grievance described above in regard to the guarantee system for unremunerative offices, and it is not unnatural that States which are thus called upon to make cash payments should be inclined to demand a set-off in respect of remunerative offices. We are, however, given to understand that, although it is possible to determine with reasonable accuracy the loss incurred by the opening of a new and unremunerative office, there are insuperable difficulties in the way of calculating the net profit on any post office. Without necessarily accepting this proposition, we find it impossible to recommend any deviation from existing practice in this respect, for the reason that we are assured that it is applied impartially to States and provinces alike. Comprehensive orders issued by the Government of India in 1928 provide that "all large centres of population or places of actual or prospective commercial importance should be provided with proper postal facilities notwithstanding that this may result in net expense to the department." They also lay down the principle that, where a local Government or Administration desires a new post office solely to meet administrative requirements or the interests of a small section of the public, such offices, if considered unlikely to be remunerative, must be guaranteed by the interested parties, though the local postal authority may dispense with a guarantee if the resultant loss is not expected to exceed Rs. 120 per annum.

390. The above principles appear to us to be generally equitable and, as it is no part of our duty in this connection to criticize existing arrangements except in so far as they result in inequality of treatment as between provinces and States, we have no recommendation to offer.

## (iii) Banking Operations of the Posts and Telegraphs Department.

391. In regard to the grievances of States arising out of banking operations carried on by the Posts and Telegraphs Department, the Government of India informs us that its position may be stated in the following terms :—

"These banking transactions, which take the form of savings bank accounts and the sale of cash certificates, represent a fair commercial exchange from which each party concerned derives some benefit which is fairly balanced by the consideration given. On the one hand, we afford to State subjects facilities for saving and inducements to thrift which are undoubtedly an asset to the economic development of the States. On the other hand, it is a convenience to us to afford these facilities because it suits us to borrow money at the rates which we pay. We would qualify this latter statement by observing that in the case of cash certificates we pay what we regard as rather more than a fair commercial rate of interest with a view to encouraging thrift among the poorer classes. Subject to this reservation we must definitely refuse to pay more than fair commercial rates. We are therefore unable to admit the existence of any profits in which the States are

entitled to share. In other words, if we had to make disbursements to third parties, under the guise of a share of "profits," in addition to the interest rates which we should normally be paying, our total disbursements would represent more than a fair commercial rate of interest.

"We admit, however, that it would be a new and unjustifiable principle of political practice to hold that the Paramount Power is entitled to carry on these transactions in States against the wishes of the Rulers, and, in some cases, in competition with the Darbar's own local arrangements. We are prepared, therefore, to arrange for their complete cessation in the territory of any State which definitely asks for it."

In our opinion, the above pronouncement effectually disposes of all grievance under this head.

#### (iv) The mail robbery rules.

392. The action proposed by the Government of India in respect of the Butler Committee's recommendation regarding the mail robbery rules is as follows :—

It is proposed that these rules should be replaced by a Government Resolution in which it would be made clear that the Paramount Power reserves the right to claim and exact compensation in any case where a mail robbery is found to be attributable to the failure of an Indian State to make police arrangements to secure the reasonable safety of life and property in any area or to afford suitable protection to routes over which mails are carried. In so far as robberies may be due to, or facilitated by, individual derelictions of duty, it would not be easy to maintain the principle of liability, since such incidents may occur in British India as well as in States. But if any particularly flagrant case were brought to notice, the question of demanding compensation would be considered on its merits.

393. In so far as this change in existing procedure involves considerations of high policy, it is quite outside our Terms of Reference ; but from the financial point of view, with which alone we are concerned, we are unable to discern any grievance which would justify us in advocating other action.

#### (v) Claim to free grants of service stamps.

394. We are unable to suggest any practicable method of eliminating the inter-State inequalities existing in respect of free grants of service stamps. Where such grants are made they indubitably carry with them exemption from full contribution to central revenues, and will be dealt with from that standpoint in the following paragraphs. We note the unfortunate fact that, to a large extent, they have grown up in a haphazard manner, but, in view of their obvious inconsistency with the adoption of Posts and Telegraphs as a federal subject, and with the fact that no such privilege is accorded to any local Government, department or individual within the limits of British India, we should deprecate any attempt to remedy existing inequalities at further cost to central or federal revenues.

## Immunities enjoyed by States in the sphere of Posts and Telegraphs.

395. We now turn to that portion of the subject of Posts and Telegraphs which is more obviously within our Terms of Reference, namely, the immunities or privileges enjoyed by many States in this sphere. These may be classified as follows :—

- (i) maintenance by States of their own postal departments,
- (ii) free grants of stamps for official correspondence,
- (iii) free carriage of the official correspondence of Darbars by the Indian Postal Department,
- (iv) privileges enjoyed by certain States in respect of obtaining a share of the receipts of the Telegraph Department.

### (i) Maintenance by States of their own postal departments.

396. Details in regard to items (i)—(iii) above will be found in the schedules to Appendix VII of this Report. Under item (i) arises a problem of great difficulty. On the basis of the position taken up by the Government of India, namely, that the Posts and Telegraphs Department is not intended to provide revenue for general purposes and is, in fact, run at a heavy loss, it would be, at the least, illogical to debit a State with a cash immunity on the ground that, by maintaining its own postal department, it is making a profit which ought to go to the Federal Government. But the fact remains that States which enjoy this privilege declare, though their accounting system is presumably different from that followed by the Government of India, that they make considerable profits therefrom. As a natural consequence of this, those States which no longer possess their own postal departments tend to argue that, whatever may be the experience of the Government of India, they could make profits for themselves if Government had not taken these arrangements out of their hands, or, alternatively, that it is inequitable that other States should be left in a position to exploit a field from which they are excluded. There is thus a widespread tendency towards secession from postal unity.

397. We regard it as very unfortunate that such a demand should be in evidence on what we believe to be the eve of India's federation. The advantages accruing to India from a unified postal system are so obvious as to need no elaboration and, when all federating units are in a position to exercise a reasonable control over the administration of this great public service, the basis for many grievances now entertained will disappear. This proposition is in fact accepted by a great number of States, but those of them which do not possess their own postal systems not unnaturally complain that it is hardly consistent with the retention of this privilege by others. So far as administrative considerations are concerned this is undoubtedly true, but the States which possess the privilege attach to it a sentimental value as an emblem of their sovereignty and would not be prepared to surrender it as a condition preliminary to Federation. We may deplore this attitude as an obstacle to the full application of the federal idea, but the anomaly does not appear sufficiently serious to justify anything of the nature of an ultimatum to the



States concerned, provided always that they permit to the federal postal department such freedom of action within their territories as may be essential in the interests of all India communications.

398. It remains, however, to be considered whether the privileged position occupied by these States amounts to an immunity to which, for the purposes of our enquiry, a definite financial value should be attached. In other words, we must decide whether it can be affirmed that the financial position of the federal posts and telegraphs department would be improved by the accession of these States to postal unity and whether we should thus be justified in debiting them with a financial immunity. Such a course would no doubt be advocated by those States which regard as invidious the enjoyment by a few of a privilege to which so many aspire. But it appears to us to be impracticable. We are informed that no method has been discovered whereby the profit or loss on providing postal facilities in any particular area can be assessed. The total revenue and expenditure actually accruing within a State afford no sure basis for such an assessment, because both revenue and expenditure, directly or indirectly connected with the operation of the postal department within a State, arise also outside its limits. No means have hitherto been devised for allocating, even approximately, these extraneous receipts and expenses, and although it might be possible, by laborious and detailed investigations, to arrive at some rough estimate in relation to the state of affairs at a particular time, the cost of those investigations and the fact that the results would be vitiated by subsequent fluctuations in traffic or by administrative changes would render the trouble and expenditure involved quite unwarranted, if not actually useless. It has also been suggested to us that, if the accounting system used by the Indian postal department were applied by those States which possess postal systems, the effect might be to convert into deficits the profits which they now believe themselves to be making. In view of these considerations we have been forced to the conclusion that the maintenance of separate postal systems by States constitutes a privilege of a political and sentimental nature rather than an immunity to which a cash value could be attached, and we have accordingly refrained from attributing any cash value to it.

#### (ii) Free grants of stamps for official correspondence.

399. The right to receive free annual grants of service stamps for official correspondence is at present enjoyed by 27 States (*vide* Schedule B of Appendix VII), the annual total value of such grants amounting to Rs. 3,12,385. The Butler Committee drew attention to the absence of any apparent principle for the regulation of these grants and to the unfortunate results arising therefrom. Generally speaking the system owes its origin to the necessity of attracting into postal unity certain States which might otherwise have preferred the continuance of previous arrangements.

400. We understand that the Government of India does not deny that a review of past practice in the matter of these privileges reveals a degree of liberality hardly consistent with the fundamental principle by which alone they can be justified. Concessions

have been granted to certain States without any *quid pro quo* from them, and the concessions applicable to others have been liberally increased even though, in some cases, such increase was specifically debarred by the terms of the original grant. The purposes of such grants have also been interpreted by some States in a wider sense than was originally contemplated, in that they utilise these free stamps for correspondence outside as well as within their territories and for the sending of telegrams. Failure to restrict the use of service stamps to the purpose for which they were primarily intended has led to a wide demand for increased supplies. The system has also created inter-State jealousy, inasmuch as many States are still debarred from a concession which they see extended to their neighbours without any apparent reason for the discrimination.

401. Looking at the matter from the federal standpoint we think it very relevant to observe that in British India the Posts and Telegraphs Department receives payment at full face value for service stamps supplied to local Administrations or to other Departments of the Government of India and that no official, however highly placed, enjoys the privilege of franking correspondence. It is clear, therefore, that the privileges enjoyed by certain States in this respect will, to the extent that they may be continued, establish them in a preferential position. Having regard to the implications of constituting Posts and Telegraphs a federal subject and to the desirability of avoiding at least any accentuation of existing anomalies, we feel justified in making the following recommendations :—

(1) No extension of the concession should be made to any State which is not at present in enjoyment of it.

(2) In the case of States which are now enjoying the concession—

(a) no increase in the present value of the concession should be made unless the right to demand such an increase is specifically conceded under existing arrangements ;

(b) where the existing arrangements provide for a concession on a varying scale, steps should be taken, by negotiation with the States, to substitute a fixed figure.

(3) Existing concessions should be treated as immunities and, where there is no scope for setting them off against special contributions, endeavours should be made, by negotiation with the States concerned, to extinguish them in return for a cash composition.

### (iii) Free carriage of official correspondence.

402. Immunities arising out of the free carriage of the official correspondence of certain States are tabulated in Schedule C of Appendix VII. In all these cases, they arise out of the terms by which the State in question accepted postal unity, and any arbitrary withdrawal of them would, in our opinion, be unjustifiable. Nevertheless, it is undeniable that the existence of these privileges involves a considerable diminution in the earning capacity of the Indian

postal department, and for this reason we have felt obliged to classify them as immunities and to attach to them a financial value based upon the estimated income of which the department is deprived. The assessments amount to an annual total of Rs. 7,14,640, but it is only fair to observe that the amount of official correspondence consigned for carriage by the postal department would probably be considerably reduced if funds for postage fees thereon had to be found by the Darbars.

#### (iv) Privileges connected with the Telegraph System.

403. The privileges, referred to at (iv) in paragraph 395 above, in respect of obtaining a share of the receipts of the Telegraph Department, are enjoyed, so far as we have been able to ascertain, by only six States, viz. Cutch, Jind, Kotah, Nawanagar, Patiala and Rewa. Between 1885 and 1905 agreements were concluded with these States for the construction and working by the Indian Telegraph Department of telegraph lines which the Darbars considered desirable or essential for local requirements. In most cases the necessary capital was provided by the State, but in some it was provided by the Government of India, interest charges being annually debited to the cost of working the line. All these agreements provide for the payment to the Darbar of the estimated net profits. In recent years, their terms have come under the close scrutiny of the Indian Posts and Telegraphs Department and have been criticised as unduly favourable to the States.

404. It has to be considered whether the admitted rights of the States to participate in the net profits, if any, of these lines constitute immunities, and whether, if it were possible to determine the annual amount, if any, by which the receipts of any State exceed the actual net profits of working its lines, that amount should be taken into consideration for our present purposes.

405. We have no hesitation in answering the second question in the negative. If any inequality results from existing arrangements, it arises not so much from any conscious admission of sovereign rights as out of a lack of foresight on the part of the Government of India when it entered into these purely business agreements. In our view, any attempt to rectify such inequalities as part of the process of adjustment involved in devising a scheme of federal finance would be entirely unjustifiable.

406. The first question is more difficult. On the one hand it is quite clear that the States concerned will, by reason of these agreements, be in a position to share the profits of a federal department which ought, in theory, to accrue wholly to federal revenues. But on the other hand, they are also bound under their agreements to make up the deficiency in years when the lines are run at a loss, as has in fact occasionally occurred. The agreements are, in fact, of a purely business and departmental nature, the lines having been constructed and worked on a special contract basis to meet the requirements of the States and not as a part of the ordinary programme of the Indian Telegraph Department. In these circumstances, we have decided to attach no cash value to the privileges which they confer on the States concerned.

## (2) Coinage and Currency.

407. Currencies in India have been in the remote past almost as numerous as dynasties, but a considerable degree of uniformity was attained during the Moghul period. In fact some of the greatest Indian States retained on their coinage up to the middle of the nineteenth century the superscription of the Delhi Emperors. We have already recounted in our historical chapter how, in the process of the economic unification of India which progressed so rapidly after the assumption of paramountcy by the Crown, many States abolished the separate currencies which they had formerly possessed. In most cases the abolition was final, but there are some in which it was limited to a definite term of years on the expiry of which the States would be entitled to reopen their mints if they so desired. In the case of most of the smaller States the right of minting has never been exercised. It is thus a fact that at the present time the currency needs of India are almost entirely met by the notes and coins issued by the Government of India. Nevertheless, the claims of the States under this head, and the fact that several still possess mints and currencies which to some extent reduce the circulation of the Government of India's notes and coinage, have so close a bearing on Federation that we feel it necessary to deal with the subject in this Report.

408. As in the case of Posts and Telegraphs, our review must be divided into two parts dealing, firstly, with the claims of the States, and secondly, with the privileges which some enjoy. The claims are, in effect, claims for a share in the profits accruing from the Government of India's control of coinage and currency which, with a few exceptions to be noted below, circulate equally in the Indian States and British India. The proposition that such profits can be, and actually are made, stands on a much firmer basis than in the case of Posts and Telegraphs. The Federal Finance Committee have, in fact, included in their forecast of federal revenues an annual net income of 380 lakhs of rupees under this head. Nevertheless, whatever the profits, we are unable to recommend the acceptance of any claim for their distribution among prospective federating units, inasmuch as "coinage and currency" is a prospective federal subject, and any profits thereon should accrue to the Federal Government, in the direction of whose currency policy the States would have the opportunity of exercising their due share of influence.

409. It is also necessary to refer here to the claims of States which, being debarred, permanently or temporarily, from the privilege of minting, argue that the privilege should either be restored to them or taken away from those which exercise it at present. The raising of immunity debits against the privileged States would, of course, disarm criticism of this kind, and the question whether such debits could or should be raised will be considered in a later paragraph. It is sufficient here to remark that the revival of mints which have been closed in the past, or the minting of coin by States which have never hitherto exercised the right, would be even more inconsistent with Federation than any system of dividing among federating units the profits accruing from control of the federal currency. But we recognise that, where mints have been closed



only for a definite term of years on the understanding that the State is entitled to reopen them when that period has elapsed, definite rights exist which cannot be terminated save by consent.

410. Consideration of the privileges now enjoyed by several States in the issue of their own currency raises a far more difficult question. Clearly it is most desirable that a uniform federal currency should circulate, without competition or limitation, throughout India. But, even here, allowance has to be made for dynastic and local sentiment, and we observe that the inclusion of currency in the list of federal subjects prepared at the Round Table Conference was made "subject to adjustment with the States concerned of such rights as are not already conceded by them." The States which at present exercise the right of coinage are less than twenty in number, and in many the right is limited to the minting of coins of low value (Pudukkottai, for instance, mints only a copper coin of the value of 1/20 of an anna) or of coins which are used for ceremonial rather than for currency purposes. In only seven States does the local currency constitute a factor deserving serious consideration for present purposes, and only in Hyderabad is it of such a nature and magnitude as to admit of extensive profit making. This State alone possesses a paper currency as well as a mint, the face value of its notes in circulation being over Rs. 9 crores. The issue of notes has proved to be by far the most, if not the only, consistently profitable branch of the Government of India's currency operations, the management of metallic currency being subject to speculative factors in the case of gold and silver, while the margin of profit on copper coins is reduced to small dimensions by the cost of manufacture. The Government of India in fact incurs a definite loss on the issue of its smallest subsidiary coins. The risks inherent in the coinage of silver are sufficiently exemplified not only by the serious losses sustained by the Government of India in consequence of the fall in the price of silver during the last few years, but also by the recent experience of several States which now exercise this privilege, more than one of which have approached the Government of India with proposals for the demonetization of their currency. Those proposals have been of a nature to suggest a heavy loss to Government, being in fact to the effect that Government should issue, in exchange for the depreciated State coins, British Indian rupees with redeemable value.

411. The conclusion which we draw from the above facts and considerations is that, with the exception of Hyderabad, particularly in respect of its note issue, the currency operations of Indian States are unlikely to involve any serious competition with the federal currency and are not of a nature which would justify a financial offer to extinguish them at the cost of federal revenues, even if the States concerned were willing to sacrifice sentiment and agree to such a course. In the case of Hyderabad, which agrees that the possession of a separate currency is a source of considerable revenue to itself, if the right to supply coinage and currency notes for the State's own needs is assessed either on a population basis or on the basis of active note circulation, the loss to federal revenues is approximately Rs. 17 lakhs. We have therefore to record the view that Hyderabad is in the enjoyment of an immunity to this extent.



412. In conclusion we suggest that in any case where the re-opening of mints or the continued issue of metallic currency may be considered inimical to the interests of the federal currency, efforts should be made to arrange, by negotiation, that such operations should be confined within purely nominal limits or to the production of coins intended for ceremonial as opposed to currency purposes.

### (3) Land Customs and Transit Duties.

413. Our enquiries in India revealed the necessity for including in our Report some reference to the land customs duties levied by many States, the disabilities which preclude others from reliance on this source of revenue, and the circumstances in which transit duties, as opposed to import and export duties, have disappeared from the Indian fiscal system. While we were aware of the prominence accorded to some aspects of this subject at the Round Table Conference, it was not until we received from several States representations in which it was included that we were constrained to give it serious consideration. The necessity of so doing was confirmed by the fact that our analysis of the salt agreements brought to notice the existence of numerous payments which, though we were unable to classify them as salt immunities, undoubtedly place the States which receive them in a privileged position at the expense of central revenues.

#### (i) Land Customs.

414. The disadvantages of internal customs barriers were realized by the Government of India at an early stage and it has from time to time availed itself of such opportunities as have occurred for their diminution or restriction. Provisions to this end were included in general commercial treaties—notably the Inter-portal Convention of 1865 with Travancore and Cochin ; and, in several instances, particularly those of States in the Punjab and States which had previously owed allegiance to the Bhonsla Raja of Nagpur, similar provisions were inserted in the sanads issued to define the relations of those States to the Paramount Power. Moreover, it was the intention of those who initiated the policy leading up to the numerous salt agreements concluded between 1870 and 1885 to use the additional salt revenue anticipated from those operations for the purchase of all the land customs rights of the States concerned. Experience, however, proved this ideal to be unattainable and only in the case of a few of the earlier agreements, namely, those with Alwar, Dholpur, Bahawalpur and Kishengarh, was this objective actually achieved.

415. In fact it is evident that the efforts of the Government of India in this direction have not been attended with a large measure of success, except in regard to transit duties and duties on salt. Though there are exceptions of great importance, the States in the main still possess the right to levy import and export duties at their land frontiers. The majority exercise the right, and to many it represents an indispensable source of income, second only in importance to land revenue.

416. The States which are disabled by the treaties and arrangements referred to from levying land customs duties object to what they hold to be invidious discrimination against themselves. The compensation payments are considered to be inadequate and, from the federal standpoint, are open to legitimate criticism as being an unjustifiable use of central revenues. Already on two occasions within recent years the Government of India has found itself unable to resist requests for the revision of existing agreements to the extent of removing restrictions on the levy of land customs duties. To other States which have advanced similar claims the reply has been made that decision must be deferred pending consideration of the larger issues involved by the federal proposal.

417. It was inevitable therefore that the subject should attract the attention of the Round Table Conference. At the discussions of the Conference there was first a tendency to press for the removal of all such fiscal barriers. But further consideration compelled the conclusion that this ideal, however, desirable, is, for the present at any rate, outside the scope of practical politics. The Peel Committee, though recording the opinion that the aim of Federation should be the gradual disappearance of all such taxes, recognised that "it may be impossible for the States to surrender, either immediately or in the near future, large sources of revenue, without the acquisition of fresh resources; nor would it seem to be in general an equitable plan for the Federation to attempt to buy up, so to speak, the existing rights of the States in such a matter. This would simply mean that, in the general interests of economic unity and to facilitate trade, a tax would be imposed on the Federation as a whole in order to relieve the inhabitants of the States. The abolition of these taxes must therefore be left to the discretion of the States to be effected in course of time as alternative sources of revenue become available."

#### **Our Conclusions and Recommendations.**

418. In view of the conclusions thus arrived at on grounds so strong as hardly to admit of dispute, there remain only two possible courses of action. The first is to retain without compromise, and regardless of existing anomalies and inequalities, that measure of progress in the desired direction which the Government of India has succeeded in achieving. The second is to remove the restrictions in the relatively few cases where they exist. Our own inclination is towards the latter course. But, apart from its retrograde and anti-federal implications, we entertain some misgivings as to the consequences which might ensue if important States which are at present under restriction or limitation in the matter of inland customs duties were to resort to the erection of protective barriers to the detriment of neighbouring parts of India.

419. In so far therefore as we are able to formulate any recommendation, it is to the effect that, pending the attainment of the ideal of universal internal free trade, relaxation of existing restrictions should be permitted only in cases where there is no room for doubt that such action would be justified by local conditions and

would not involve risk of serious repercussions on trade outside the territory of the State concerned.

## **(ii) Fiscal restrictions with regard to Salt.**

420. The above observations are made only in respect of general import and export duties. Existing agreements under which States do not tax salt or levy transit duties must undoubtedly remain in force. In Appendix V we have been at pains to isolate from among the payments made to States under Salt Agreements all amounts which can fairly be classified as immunities from the incidence of the salt tax. The balance of such payments (apart from a few easily distinguishable items) is in respect of either the extinction of commercial or manufacturing profits on the one hand or the surrender of customs or transit duties on salt on the other. Payments under the former head clearly do not constitute an immunity of any kind. But those under the latter confer financial privileges on the States concerned at the expense of central revenues and we consider that they should be classified as immunities.

## **(iii) Transit Duties.**

421. We hold the same view in regard to payments made for the abolition of transit duties on commodities other than salt. Such duties would, in modern conditions, impose intolerable obstacles on trade and we are glad to observe that they have practically disappeared as the result of the co-operation of Darbars and the development of railway communications. Only in a comparatively few cases are money payments made for such surrenders, and the immunities thus to be debited will not be large.

## **Lack of material for preparation of an Appendix.**

422. We regret that it has not been possible for us to prepare an Appendix detailing the scope and effect of our recommendations in regard to this category of miscellaneous immunities. Our Terms of Reference contain no mention of inland customs or transit duties. We did not, therefore, issue any request for comprehensive details, and it was only at a late stage of our investigations that we became fully conscious of the close connexion of these matters with the general problem before us. The collection of the data necessary for the preparation of detailed schedules would have involved serious delay in the submission of our Report and we have, therefore, thought it justifiable to confine ourselves to the formulation of principles on the basis of which the preparation of such schedules could no doubt be completed without difficulty under the orders of the Government of India.

## **(4) Miscellaneous Payments to certain States.**

423. The Government of Bombay have brought to our notice a considerable number of payments, amounting in the aggregate to about two lakhs of rupees per annum, which are at present being

made to States in that Presidency in commutation of rights which their Rulers formerly exercised in districts now included in British India. In practically every case these payments, which have already been referred to in paras. 194-199 under the heading of Kadim Inams, are made from provincial revenues, and the continuance of present practice would not, therefore, affect the finances of the Federal Government. We understand, however, that the question of the transfer of these liabilities to the Central Government has been definitely raised and, in the event of such a proposal being accepted, the origin and nature of the payments would call for more detailed scrutiny than we have been able to accord to them.

#### (5) Courtesy Concessions in respect of Sea Customs.

424. Some reference must here be made to a form of immunity enjoyed not by Indian States as such, but by certain Rulers in their personal capacity. By an Order of the Governor-General in Council, Rulers of Indian States in possession of permanent salutes of 21 guns were, in 1861, granted the right to import, free of customs duty, all goods intended for their personal use or the use of members of their families residing with and dependent upon them. This concession was, by the same procedure, extended in 1888 to include all Rulers in possession of permanent salutes of 19 guns, and the total number of Princes entitled to the concession is now eleven. A minor customs concession has been given by administrative orders to all Rulers possessing permanent salutes of not less than 11 guns. These Rulers are permitted to pass their personal effects through the Customs free of duty when entering India on return from travelling abroad. The number of Rulers enjoying this minor concession, but excluded from the major one, is seventy-six.

425. So long ago as 1924, the Chamber of Princes passed a Resolution recommending that the major concession should be extended to all members of the Chamber, and continued to press the matter until, in his opening speech to the Chamber in February, 1928, the Viceroy announced that "the matter is not one that can be considered apart from the general question of fiscal relations, which is one of the questions under investigation by the Indian States Committee" (i.e., the Butler Committee). That Committee recommended in their Report acceptance of the principle of the Resolution. Effect has not been given to this recommendation and the Princes have not failed to make emphatic representations to us on the subject. In these circumstances, we are under the necessity of expressing an opinion whether the major concession should be extended to all members of the Chamber of Princes as well as whether any concession at all should be continued under Federation.

426. With regard to the first question, it is important to remember that, when the Butler Committee issued its Report, the States were pressing their claim to a share of the customs revenue collected at British Indian ports on the ground that they were contributing to this revenue on the same basis as British India, though they themselves had no voice in determining tariff policy and derived no benefit from their contribution. This was recognized by the Princes

when the Standing Committee of the Chamber met the Viceroy in informal conference at Poona in June, 1929. It was then put on record "that the relief proposed in paragraph 88 of the Indian States Committee Report was of an *ad interim* and immediate character. If and when all States were to obtain a share in the Imperial Customs duties as a result of the investigations of the expert Committee, these special privileges to the Princes personally would of course disappear."

427. The "expert Committee" mentioned above was in fact never appointed, owing to the acceptance of the idea of Federation at the Round Table Conference. We do not suggest that to secure a voice in the fixing of tariffs and in the appropriation of the customs revenue, which would follow from Federation, is the same thing as to receive a share of that revenue, but the connection between the two is so close as to make it impossible to ignore the recorded minute of the Viceroy's conference at Poona.

428. There are, however, certain more definitely practical aspects of the matter which have to be considered. It has been represented to us that the distinction drawn under the present practice between different categories of Rulers is invidious. That is undoubtedly the case, but we have to determine what would be the effect of removing the distinction. There are now 109 members of the Chamber of Princes in their own right, a number which is liable to increase, and if all those members were granted the major concession demanded, it would be difficult to resist the claims of members elected by groups of lesser States, or indeed of all Rulers of such States. In effect there is no saying with whom the concession would end. The concession, limited though it now is, operates with some measure of hardship to Indian traders and merchants, particularly to importers of luxury articles. If it were extended in the degree desired, that hardship would assume very serious proportions. Moreover, it is even now not easy for the Customs department to decide, in respect of the articles imported by Rulers enjoying the concession, what should and what should not be admitted free of duty. An extension of that concession to the extent demanded would be a source of grave embarrassment to the department and would increase the cost of its administration. It is difficult to estimate the effect of the extension upon the customs revenues, but it could not fail to make an appreciable difference to the federal budget.

429. A number of Princes have laid arguments before us which might have great force if it were a question of extending the concession to one or two individual Rulers only. But we are convinced that this would be both impracticable and unwise. In view of all the circumstances we find it quite impossible to recommend any extension to other Princes of the concession now enjoyed by Rulers with salutes of 21 and 19 guns.

430. With regard to the question whether both or either forms of the concessions now enjoyed should be continued at all, several factors have to be considered. The fact that the major concession is limited to eleven highly responsible Rulers is in itself a guarantee



of great importance, as is proved by information furnished to us that the loss occasioned by that concession amounts to no more than from two to three lakhs of rupees per annum. The loss to the customs revenue occasioned by the minor concession is not ascertainable, for the reason that it is impossible to say what dutiable articles may be contained in the personal effects of Rulers re-entering India, but obviously the very limitations of the concession preclude the possibility of any serious loss. It is also essential to bear in mind that the major concession was granted to Rulers with 21 and 19 gun salutes seventy-one and forty-four years ago respectively, and is regarded by them as an important recognition of their rank and dignity. The minor concession is also much valued by the seventy-six Rulers enjoying it as a graceful acknowledgment of their position in India.

431. In our opinion the above-mentioned reasons constitute a strong argument for continuing both the existing concessions, with the limitations to which they are now subject, but we could not recommend this course unless the major concession were at the same time extended to the representative of the King-Emperor, the Viceroy and Governor-General, who embodies in his own person the authority of the Paramount Power.

432. We are also strongly of opinion that the minor concession, now enjoyed by Rulers in possession of permanent salutes of not less than 11 guns, should be extended to all Governors of Provinces on entry into India to take up their appointments as such, and on return to India from leave of absence.

433. We understand that our recommendations would require legislation to make them effective, and, if they are adopted, we think that the opportunity should also be taken of constituting the Viceroy the sole judge in the event of any dispute arising in connexion with the concessions and of making his decision upon it final and conclusive.

### Summary of Conclusions and Recommendations.

*Posts and Telegraphs.*—We are unable to recommend acceptance of any claims by States to share in the profits, if any, of the department. We are of opinion that all such receipts must accrue to and be retained by the Federal Government (para. 388).

In view of principles already accepted by the Government of India, we have no recommendations to make in regard to the "guarantee system" (paras. 389—390), the banking operations carried on by the postal department (para. 391), or the mail robbery rules (paras. 392—393).

We have arrived at the conclusion that the maintenance of separate postal systems by certain States (Appendix VII, Schedule A) constitutes a privilege of a political and sentimental nature rather than an immunity to which a cash value could be attached (paras. 396—398).

Free grants of service stamps are made to certain States for official correspondence up to an aggregate value of Rs. 3,12,385 per

annum (Appendix VII, Schedule B). We recommend (para. 401) that :—

(1) No extension of the concession should be made to any State which is not at present in enjoyment of it.

(2) In the case of States which are now enjoying the concession :—

(a) no increase in the present value of the concession should be made unless the right to demand such an increase is specifically conceded under existing arrangements ;

(b) where the existing arrangements provide for a concession on a varying scale, steps should be taken, by negotiation with the States, to substitute a fixed figure.

(3) Existing concessions should be treated as immunities and, where there is no scope for setting them off against special contributions, endeavour should be made, by negotiation with the States concerned, to extinguish them in return for a cash composition.

Privileges enjoyed by certain States in regard to free carriage of their official correspondence cannot be arbitrarily withdrawn, but should be treated as immunities (para. 402). The aggregate value of these immunities has been estimated at Rs. 7,14,640 (Appendix VII, Schedule C).

After scrutiny of the privileges enjoyed by certain States in respect of telegraph systems we are of opinion that these cannot justifiably be treated as immunities. (Paras. 403—406).

*Coinage and Currency.*—We are unable to recommend any acceptance of claims for distribution of currency profits among federating units. (Paras. 408—409).

We examine the question whether the privileges enjoyed by certain States in respect of the issue of their own currency should be treated as immunities on the ground that they may limit, by competition or restriction, the free circulation of the federal currency.

After full consideration of the potentialities of currency issue as a source of profit we are not prepared to recommend that rights to issue metallic currency should be classified as immunities, but are unable to take the same view of a case where currency notes are also issued. In the case of Hyderabad, the only State in possession of this double right, we recommend that it should be treated as an immunity. On the basis of population and active note circulation we attach to this immunity a cash value of approximately Rs. 17 lakhs per annum. (Paras. 410—411).

We also recommend that in any case where the re-opening of mints closed under past agreements for a definite term of years, or the continued issue of metallic currency may be considered inimical to the interests of the federal currency, efforts should be made to arrange by negotiation, that such operations should be confined within purely nominal limits or to the production of coins intended for ceremonial as opposed to currency purposes (para. 412).

*Land Customs and Transit Duties.*—We agree with the Peel Committee that it is impossible for States to abolish immediately or in the near future the land customs barriers which most of them maintain and that it would be unjustifiable to attempt to buy out such rights at the cost of federal revenues. In these circumstances, and having regard to the grievances arising out of existing anomalies and inequalities, we are inclined to favour the removal of restrictions on the levy of land customs duties in the relatively few cases where such restrictions are in force. But, apart from the retrograde and anti-federal implications of such a measure, we entertain misgivings as to the consequences which might ensue from the possible erection of protective barriers. In so far, therefore, as we are able to formulate any recommendation, it is to the effect that, pending the attainment of the ideal of universal internal free trade, relaxation of existing restrictions should be permitted only in cases where there is no room for doubt that such action would be justified by local conditions and would not involve risk of serious repercussions on trade outside the territory of the State concerned (paras. 413—419).

We do not recommend any abrogation of existing arrangements for the abolition of the taxation of salt by States or for the abolition of transit duties. But all compensation payments now made to States in respect of such arrangements should, in our opinion, be treated as immunities (paras. 420—421). For reasons given in para. 422 it has not been possible to prepare a schedule detailing the payments concerned.

*Courtesy Concessions in respect of Sea Customs.*—For reasons given in paras. 428—429 we are unable to recommend any increase in the number of Rulers of Indian States who at present enjoy (a) the major concession of importing free of customs duty all goods intended for their personal use, or (b) the minor concession of passing their personal effects through the customs free of duty when returning to India from abroad.

We recommend the continuance of both concessions on the existing scale, but only subject to the condition that the major one should now be extended to the Viceroy and Governor-General. We also advocate the extension of the minor concession to all Governors of Provinces on entry into India to take up their appointments or on return from leave of absence (paras. 431—432).

We further recommend that the opportunity should be taken of constituting the Viceroy as the sole and final deciding authority in the event of any dispute arising in connection with these concessions (para. 433).

## CHAPTER IX.—CONCLUDING CHAPTER.

**Introductory.**

434. In Chapters III to VIII we have considered and made recommendations on the matters specifically remitted to us. We have not been in terms directed to state the joint effect of our several recommendations upon the cases of individual States, that is to say, to propose individual financial settlements. But the object of our enquiry was to facilitate the creation of a system of federal finance in which all units would contribute on a uniform basis, as far as possible, to the federal resources. This object has been in our minds throughout the enquiry, and we regard it as our duty not only to summarise the recommendations we have made on particular issues, but also to indicate in general terms how these could be applied as principles to the settlements with individual States on entering Federation.

**Recommendations only applicable in the event of Federation.**

435. We desire to say emphatically at the outset that nothing we have proposed has any relevance to the position of States, if there should be any such, which elect to stand out of Federation. We were constituted a Committee to deal with particular aspects of federal finance, and, with one exception to which we refer in paragraph 443, we were not empowered to make recommendations for the settlement of financial questions outstanding between British India and the States on any other basis than Federation. Our recommendations are conditioned by the assumption that the States will federate ; they are not to be taken by the States as a basis for the assertion of claims against British India, or by British India for the assertion of claims against States, either under the existing, or under any other than a federal, constitution, or in the present, or any other than a federal, relationship between the parties. They apply only to matters which fall within the proposed field of federal subjects and only there on the assumption of the acceptance of Federation by the individual States concerned. We desire to make this point clear beyond the possibility of misunderstanding.

**No compulsion on States to federate.**

436. Our enquiry has in the second place proceeded upon the assumption that no State can be compelled to enter Federation against its will. This assumption is one which is not open to dispute, and indeed was the basis of all the discussions at the two Round Table Conferences. It has an important bearing upon the subject of our enquiry, for we have not had to consider the conditions to be imposed by one party upon the other, but rather to suggest terms which, in our opinion, could be fairly and reasonably accepted by both parties as the basis of a mutual and voluntary association with one another. We assume a desire on the part of each to enter into an association, provided such a basis can be found, and our endeavour

has been to do justice between them after taking into account ascertained existing rights.

### **Federation and the political evolution of India.**

437. But though Federation between the States and British India cannot be achieved by compulsion, it is clearly a necessary stage in the political evolution of India, and the operation of forces beyond the control of either party must inevitably cause them to draw closer to one another. These forces, as we have already pointed out, are in the main economic, and we cannot doubt that it is in some form or other of Federation that a remedy for the economic grievances of the States in particular will most satisfactorily and effectively be found. The task of formulating a scheme for this purpose would be infinitely easier if it could have been begun upon a clean sheet ; but the course of history during the last 150 years has brought into existence an intricate network of relationships between the two parties, the unravelling and readjustment of which must be accomplished before any advance can be made. Both political and financial factors are involved in this process. With the first we are not concerned ; our Terms of Reference are confined to the financial relations between the States and British India, and in our survey of this field we have endeavoured to cover the whole of the ground and to make our recommendations as comprehensive and complete as possible.

### **The States not a collective unit.**

438. We are faced at once with the difficulty that the States are not a political unit like British India, and cannot therefore be dealt with as a whole. Our recommendations are intended to provide the material for the making of individual settlements with each State on its entry into Federation on the basis of a balance sheet which takes account of individual " credits " and " debits." There would in any event be no short cut to a settlement with the States by treating them collectively, for they will necessarily enter Federation by separate and individual agreements with the Paramount Power, in the making of which a number of varying factors, historical, political and economic, will have to be taken into account. It is only in a very general sense that it is possible to speak of the common interests of the States as contrasted with the interests of British India.

### **Difficulty of securing uniformity of burdens and benefits in a Federated India.**

439. In an ideal federal system there would no doubt be complete uniformity, if not equalization, of burdens and of benefits, and existing federal constitutions seek to give effect, so far as possible, to this principle. But the circumstances in which an Indian Federation has to be created are, in the true sense of the word, unique, and present features which no framers of any federal constitution have hitherto had to take into account. Federation



has almost invariably occurred elsewhere as the result of agreement between homogeneous and comparable units, either completely independent or owing allegiance to a common sovereign. Each constituent element surrenders certain of its powers to a new body, representative of them all, to be exercised by the latter for the common good, and though it retains its autonomy in every other respect it occupies thenceforward a position of general subordination to the new organism.

440. In India the process will be wholly different. The federating elements are not homogeneous, and vary infinitely in area, population and wealth, nor do they all stand in the same relation to a common sovereign. The Rulers of the States already exercise sovereignty, the provinces of British India are not even autonomous; and though the provinces will attain autonomy, the Rulers of the States, save to a very limited extent, will not cease to exercise sovereignty; Federation will not be accomplished in the case of the provinces by a surrender to a new organism of powers which they already possess; it will take the form of a devolution by an existing organism of powers which it has itself long enjoyed. Lastly, outside the federal sphere the States will not occupy in any sense a position subordinate to the federal organism, but will continue to exercise the rights which they possess in virtue of their sovereignty unaffected by any other authority save that of the Paramount Power. Such is the magnitude and complexity of the problem which the framers of any federal constitution for India have to solve. It is therefore apparent at the outset that the ideal represented by the principle of uniformity or equalization of burdens and benefits is one not likely to be easily attained, and no useful purpose would be served by a refusal to recognise existing facts.

441. Our enquiries have shown us that uniformity is now wanting not only between British India and the States as such, but also between one State and another. As between British India and the States the want of uniformity arises from obvious and fundamental differences of political structure. As regards the States, we have in the preceding Chapters of this Report dealt both with the contributions which, in one form or another, they, or some of them, already make, and also with the immunity from contributions to central revenues which they, or some of them, at present enjoy. Under the first head we have found that some States are entitled to a credit in respect of sums paid in cash to the Paramount Power in the form of tributes so-called. Certain other States have commuted their liability for these contributions by lump sum payments or the cession of territory; and we hold that these States are equally entitled to claim a credit in respect of the value of these sums or of that territory, however it may be calculated, as the equivalent of a cash contribution. But there are many States making no direct contribution, and even as between the contributing States the incidence is arbitrary and unequal. Under the second head we have found that there are States which, by virtue of treaty rights or otherwise, pay nothing towards central salt or customs revenues, while others do so; and that some also enjoy certain immunities of less importance, which others do not. Thus neither benefits nor burdens are evenly distributed between the States themselves.

## Principles of adjustment of contributions and immunities in the case of individual States.

442. British India is mainly concerned with the aggregate of the States' contributions and immunities, and not with their uneven incidence as between the States *inter se*. The States, however, must enter Federation as separate units, and a balance sheet will, therefore, be required in the case of each individual State. Here certain difficulties require consideration. In the first place, it is clearly impossible to set off the debits of one State against the credits of another. In the second place, though it is natural and indeed inevitable that a State's credits should be set off against its own debits, there are some States who have only credits and others only debits to their account. It is scarcely to be supposed that a State will be willing to enter Federation if it has much to lose and nothing to gain, as must clearly be the case if it is to be debited with the full value of its immunities and has no credits on the other side of the account. These immunities or privileges are in the great majority of cases secured to the State by Treaty, and we are not prepared to recommend that a State should be compelled to choose between exclusion from Federation and complete surrender of its existing rights. The anomalies of the present situation have their roots in the past, and their existence must be recognised. Central revenues will not be affected thereby to any greater extent than they are at present, and this is clearly a case where insistence upon uniformity will not only fail to advance the cause of Federation but might gravely prejudice it.

443. We do not, however, intend to suggest that a State which enters Federation can continue in the enjoyment of privileges or immunities which are definitely inconsistent with the federal ideal and at the same time claim remission of tribute or other contributions on the ground that these are of a feudal character or are unknown in other federations. We recommend, therefore, that, whenever it is proposed to remit a contribution of this kind, the value of any privilege or immunity from ordinary federal burdens shall be set off against the proposed credit and no remission or payment made unless the credit exceeds the debit, and then only to the extent of the balance. In one case only we do not recommend the application of this principle, namely, that of cash contributions in excess of five per cent. of the revenue of a State. The remissions which we have recommended in this case are intended to be immediate, that is to say, prior to Federation, so that no question of "credits" and "debts" arises in regard to them.

### Application of principle illustrated.

444. Three illustrations of possible cases will make clear the manner in which our recommendations would work out. Thus :—

- (i) State A pays a cash contribution of Rs. 10 lakhs and enjoys no immunities. State B enjoys an immunity valued at Rs. 5 lakhs and pays no cash contribution.

State B's Rs. 5 lakhs cannot be set off against the cash contribution of Rs. 10 lakhs payable by State A. The Rs. 10 lakhs payable by

State A will be remitted by instalments, entirely irrespective of whether State B's immunity is continued or not.

(ii) State C is entitled to a credit of Rs. 5 lakhs annually on account of a cash contribution ; it also enjoys immunities of the annual value of Rs. 3 lakhs.

The maximum remission to which State C will be entitled will be Rs. 2 lakhs so long as the value of its immunities remains unchanged.

(iii) State D is entitled to a credit of Rs. 4 lakhs annually on account of ceded territories ; it also enjoys immunities of the annual value of Rs. 10 lakhs.

? / State D will continue to enjoy its immunity, but will receive nothing on account of ceded territories so long as the value of the immunity is not less than Rs. 4 lakhs annually.

### Effect of Recommendations on Federal Budget.

445. Our recommendations, however, involve the progressive extinction of credits and the acceptance of liabilities at the expense of federal revenues, in the case of cash contributions (on the assumption that they are placed at the disposal of the Federation) by their gradual remission, and in the case of ceded territories by direct payments from the Federation to certain individual States. Thus the cash contributions from the States would be a diminishing receipt, while the payments in respect of ceded territories would for a term of years be an increasing liability on federal resources. Again, there are States which enjoy immunities at the expense of federal revenues, which they have shown little inclination to relinquish, even in return for cash compensation. On the figures so far as we have been able to ascertain them (apart from those which we have made no attempt to estimate, such as the contributions of the States towards defence as represented by the Indian States Forces), the gross amount of the cash contributions of the States to federal revenues will not in any circumstances exceed Rs. 63 lakhs (or Rs. 59 lakhs, taking into account contributions now allocated to special or local purposes). These figures are arrived at after deduction of the immediate remissions (approximately Rs. 12 lakhs) which we recommend, and we have proposed that the balance, apart from the contributions for special or local purposes, should be progressively reduced at least *pari passu* with the return of the proceeds of income tax to the provinces. The cash contributions will not, however, be entirely extinguished so long as any immunities remain outstanding in account with the contributing States. At the same time the entry into Federation of certain States would under our recommendations entitle them to receive, *pari passu* with the extinction of cash contributions, annual payments on account of ceded territories which might amount ultimately to approximately Rs. 37 lakhs.

446. But a number of States will continue to enjoy immunities and privileges at the expense of the Federation without making any equivalent contribution in return. Thus not only do our recommendations provide only a partial remedy for the existing want of uniformity of contribution, but they also contemplate the imposition

on federal revenues of a burden which does not fall upon the central revenues of the Government of India as constituted to-day. It is impossible, for reasons explained in the earlier chapters, to state the exact sum which this additional burden represents, but we estimate the ultimate figure at approximately Rs. 1 crore per annum. This, however, is a gross figure. As shown in para. 443, certain States enjoying immunities will continue to pay cash contributions so long as their immunities remain. On the other hand, we have made recommendations with respect to immunities which, if accepted, would result in a substantial addition to federal revenues.

447. It is right, however, to point out that the impossibility of securing uniformity in the first stages of Federation was fully recognised in the proceedings of the Round Table Conference, and our recommendations have gone as far in the direction of securing it as we believe to be practicable. The proposals of the Conference indeed definitely included the remission to the States of some Rs. 70 lakhs per annum under the head of cash contributions and envisaged the possibility of a further liability on account of ceded territories. It may also be pointed out that the States will, as federal units, bear their share of this burden, and that it will not fall exclusively on the provinces of British India.

448. Finally it is not irrelevant to observe that the States who enter Federation will be called upon to share with the provincial units in the cost of subsidising the deficit provinces, which will stand in very much the same relation to the Federal Government as those States which enjoy immunities and make no corresponding contributions in return.

### Concluding Remarks.

449. But if, after every adjustment has been made and every consideration which we have mentioned has been taken into account, there is still a substantial balance against British India, even this is not the last word. By the very fact of their entry into Federation, the States make a contribution which is not to be weighed in golden scales. We are far from saying that the financial aspect of Federation is not of very great importance, especially in these difficult times ; but it is necessary also to preserve a sense of proportion, and to view all the elements of the problem in due relation to one another. It is on these grounds that we justify the recommendations in our Report, which represents an honest endeavour to do justice between the parties and to establish a fair and equitable basis which both of them can accept without prejudicing either their interests or their self-respect.

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450. We must, in conclusion, express our great appreciation of the services of our Secretaries, Mr. K. S. Fitze, C.I.E., of the Political Department of the Government of India, and Mr. P. J. Patrick, of the India Office. Their industry, their ability and their wide knowledge of the subject-matter of our enquiry have been invaluable to us, and we desire to record, and that in no formal sense, our deep obligations to them.

451. We wish also to thank both the British and Indian members of our small clerical staff. The conditions under which they worked in India were necessarily exacting, and the speed and efficiency with which they prepared and arranged the mass of memoranda and statistics on which our Report is founded were beyond praise.

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R. I. R. GLANCY.

HASTINGS.

HUTCHISON OF MONTROSE.

MAURICE GWYER.

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P. J. PATRICK, } *Joint Secretaries.*

London,

*1st July, 1932.*



## SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS.

## CHAPTER III.—CASH CONTRIBUTIONS.

We deal in this chapter with the type of contribution generally known as tribute, payable to the Paramount Power (paras. 34 and 37).

They fall into two categories :—

- (1) Those imposed or negotiated by British authority ;
- (2) those transferred by or inherited from previous suzerain powers or overlords (para. 41).

Under (1) we distinguish five classes, the first three comprising tributes arising from suzerainty, or obligations of a military character, the last two from the restoration or grant of territory, or the maintenance of local corps, police, etc., for special and local purposes (para. 42).

Under (2) we distinguish two classes, the first comprising contributions acquired by conquest or lapse, the second, contributions assigned by treaty (para. 43).

The contributions are, in general, not of a feudal nature, and the principle of uniformity of contribution to federal resources, rather than any argument from feudal analogies, provides ground for remission (paras. 63-64).

We recommend for remission contributions falling under the first three classes which are not in return for material assets or for special or local purposes (para. 65).

We hold that territory, as opposed to land held as private property, should not be considered a "material asset," and we recommend that the fourth class of contributions be included for remission with the first three classes (para. 71).

We find that contributions for special or local purposes require, in general, further examination and decision on principles indicated, but we have provisionally classed them for remission, with the exception of the contribution from the State of Baroda, paid and used for the police of the tributary areas (paras. 73-75).

We also recommend for remission contributions acquired by conquest or lapse (para. 76).

We recommend that the assigned tributes specified in Appendix III, Class (7) should revert to the States which assigned them *pari passu* with the remission of those directly acquired (paras. 82-83).

We regard inter-State tributes as anti-federal and express the hope that they will disappear (para. 81).

We recommend also :—

that fluctuating tributes should be stabilised at their present figures, and that the conditions attached to certain other tributes already remitted should be removed or relaxed (paras. 84-85) ;

that the securities representing the amounts paid for capitalized tributes should be returned *pari passu* with the remission of annual payments (para. 86) ;

that immediate relief should be given by the remission of the amount of any contribution which is in excess of 5 per cent. of the total revenues of the State which pays it (para. 88) ;

that the remaining payments should disappear, at least *pari passu* with the income tax contributions from the Provinces, but that a moiety should be extinguished at the latest in ten years from federation, and the whole within twenty years (para. 90).

We estimate that the immediate relief will amount approximately to Rs. 12 lakhs a year, and that the net amount excluding these Rs. 12 lakhs, but including contributions in respect of local corps which will rank for remission, will not exceed Rs. 63 lakhs a year. If the savings resulting from disbandment of local corps are set off against the remissions, the total net cost to Government will be Rs. 59 lakhs a year (para. 89).

#### CHAPTER IV.—CEDED TERRITORIES.

We have, in accordance with our Terms of Reference, taken into consideration only territories ceded by States in return for specific military guarantees, and cases of cessions *ejusdem generis* (para. 91).

We have found certain cessions of territory by Hyderabad, Baroda, Gwalior, Indore and Sangli to be within our Terms of Reference, and have identified the territories in each case except that of Indore, where, for reasons which we explain, identification is unnecessary (paras. 107, 122, 141, 148, 157-159).

We have considered the valuation placed upon these territories by the Special Committee appointed for the purpose by the Government of India, but we have been unable to use the results (paras. 100-101).

We have considered alternative methods of valuation suggested by the States, but have been unable to accept them (paras. 102-104).

We adopt, with certain modifications, the net value at the date of cession as the basis of our recommendations (para. 105).

After giving an account of the history of the cessions which have been made by the above five States, we recommend that the following annual credits be allowed in respect of the territory ceded by the undermentioned States.

					<i>Rs. in lakhs.</i>
Baroda	..	..	..	..	22.98 (para. 132).
Gwalior	..	..	..	..	11.78 (para. 146).
Indore	..	..	..	..	1.11 (para. 151).
Sangli	..	..	..	..	1.10 (para. 162).

In the case of Hyderabad we recommend no such credit, as the State has asked that the military guarantee for which it ceded territory may instead continue in being (para. 116).

We recommend that the annual credits which we have proposed should become effective in the adjustments with the States in question *pari passu* with the reduction of the contributions to be paid by the provinces to Federal revenues (para. 164).

## CHAPTER V.—MISCELLANEOUS CONTRIBUTIONS.

Our conclusions and recommendations are :—  
in regard to :—

(i) Indian States Forces, that the financial adjustment should be deferred until after Federation (para. 173) ;

and in regard to :—

(ii) Railway lands, (iii) cantonments and civil stations,

(iv) excisable commodities, and (v) "lapsed inams" and similar cash payments in the Bombay Presidency, that the grievances at present felt by the States can be removed by the specific measures which we have suggested and that thereby all claims under these heads can be disposed of without any financial adjustment as regards federal revenues (paras. 174-199) ;

and in regard to :—

(vi) other miscellaneous cash payments (towards maintenance of roads, medical relief and Thana administration), that these raise no financial question affecting Federation (paras. 200-202).

We have not therefore placed a cash value for the purposes of financial adjustment on any of the various contributions which the States claim to be making under the above heads.

## CHAPTER VI.—SALT.

In the introductory paragraphs of this Chapter (paras. 203-205) we have given some account of the magnitude and origins of India's salt supply, the system of its taxation and the financial importance of this feature of the Indian fiscal system, it being estimated by the Federal Finance Committee that the net receipts from salt taxation should amount to Rs. 555 lakhs, or about 6½ per cent. of the estimated federal revenues.

We also show (paras. 209-214) how between 1870 and 1885 the Government of India, by a series of Agreements with salt-producing States, were able to establish a practical monopoly of production and to remove the customs barriers previously maintained against States. Reference is made (paras. 211-214) to the principles adopted for purposes of those Agreements and to their effect upon the States concerned, which has in some instances given rise to a sense of grievance which still exists.

We describe at some length (paras. 228-235) the special cases of the States of Kathiawar and of Cutch, whose Agreements subjected them without compensation to very definite restrictions in regard to the output and sale of salt, but who contribute nothing towards the central salt revenue.

Except in the cases of States in Kathiawar and Cutch, we see no ground for recommending any immediate revision of existing Agreements. The question of revising other Agreements will be for consideration in due course by the Federal Government, which may deem it desirable to arrange that salt sources closed or restricted

under the present Agreements should be reopened in order to diminish the importation of foreign salt and to rid itself of compensatory liabilities (paras. 215-218).

To the extent that certain States, or their inhabitants, would under existing arrangements be exempt from contributing to federal revenues through the incidence of the salt tax, we find that they are undoubtedly in enjoyment of immunities. These immunities, as calculated by us (Appendix V) amount in all to Rs. 46,06,057, of which Rs. 7,90,906 relates to Kathiawar and Cutch. In making these calculations we have carefully scrutinized the salt Agreements with a view to excluding compensatory or other payments which, in our opinion, do not rank as salt immunities (paras. 219-222), though, as will appear from Chapter VIII, some of them constitute immunities of another kind.

In regard to Kathiawar and Cutch we suggest (paras. 228-235) that all existing restrictions on the manufacture and marketing of salt should be removed, subject to the condition that the States concerned should permit collection of the federal salt duty by federal officers at the source of manufacture, together with the application of such administrative regulations as are common to the maintenance of salt works and the movement of salt throughout India.

## CHAPTER VII.—SEA CUSTOMS AND PORTS.

After setting out some of the difficulties in the way of bringing the views of the States with regard to their ports into harmony with the requirements of Federation, we give a general account of all the ports belonging to the maritime States (paras. 239-250).

The Treaty rights of Travancore and Cochin in the port of Cochin are described, with special reference to the Inter-portal Convention of 1865 and the Four-party Port Agreement of 1925 (paras. 251-265).

We examine a claim by Travancore under the Convention of 1865, and give our reasons for being unable to regard it as giving rise to "ascertained existing rights" within our Terms of Reference (paras. 266-274).

We note the value to Travancore and Cochin at the present time of their ascertained rights under the Agreement of 1925 and draw attention to various factors which may substantially affect that value in the near future (paras. 275-283).

After a general description of the Kathiawar peninsula, we give the history of the Viramgam Line, of its abolition in 1917, and of its reimposition in 1927 after the failure of the Mount Abu conference. The action taken by the Government of India on the representations submitted by Nawanagar, Junagadh, Morvi and Porbandar after the reimposition of the Viramgam Line is also described (paras. 284-311).

An account is given of the special Treaty rights of Bhavnagar (paras. 312-317).

An account is given of the physical characteristics and trade of the ports of Bhavnagar, Jafarabad, Verawal, Mangrol, Porbandar, Okha, Bedi Bandar and Navlakhi, and of the value of the customs collections retained by them since the reimposition of the Viramgam Line (paras. 318—336).

We give an estimate of the yield of customs collections by the maritime States of Kathiawar on alternative assumptions :— (1) that the Viramgam Line is maintained as at present, (2) that the Line is wholly abolished, and (3) that the Line is advanced so as to divide the inland States from the maritime States of Kathiawar (paras. 337—345).

We survey the existing position in regard to certain other maritime States outside Kathiawar, viz., Cambay, Janjira, Savantwadi, Cutch and Sachin (paras. 346—355).

We examine certain special claims by Baroda (paras. 356-360).

The special cases of the Treaty claims and rights of Hyderabad and Kashmir are dealt with (paras. 361—368).

We explain the difficulty of making any estimate at the present time of the value of the existing rights of maritime States (paras. 369—374).

We recommend that negotiations should be begun for the purchase of the rights of Travancore and Cochin in Cochin port and that steps should be taken to adjust the difficulties which arise from the present divided ownership and jurisdiction of the port (paras. 375-379).

For reasons stated in paragraphs 380-381, we find ourselves unable to recommend that any offer should be made at the present time for the acquisition of the customs rights of port owning States.

We express the opinion that the ideal of a true Federation is difficult to reconcile with the retention by any federal unit of customs duties collected at its ports, but we recognise that no maritime State is likely to relinquish this right (paras. 380—381).

In order that no maritime State may be thereby prevented from entering Federation we recommend for consideration a compromise arrangement under which such States would be enabled to retain the duties on goods imported through their own ports for consumption by their own subjects. We recognise that no such arrangement could be made, except with the consent of the State concerned, where its effect would be to curtail Treaty rights (para. 382).

We discuss the methods by which such an arrangement could be made effective, and the question whether it would necessarily involve any measure of inspection or supervision of customs administration by federal authority (para. 383).

## CHAPTER VIII.—MISCELLANEOUS IMMUNITIES.

*Posts and Telegraphs.*—We are unable to recommend acceptance of any claims by States to share in the profits, if any, of the department. We are of opinion that all such receipts must accrue to and be retained by the Federal Government (para. 388).



In view of principles already accepted by the Government of India, we have no recommendations to make in regard to the "guarantee system" (paras. 389-390), the banking operations carried on by the postal department (para. 391), or the mail robbery rules (paras. 392-393).

We have arrived at the conclusion that the maintenance of separate postal systems by certain States (Appendix VII, Schedule A) constitutes a privilege of a political and sentimental nature rather than an immunity to which a cash value could be attached (paras. 396-398).

Free grants of service stamps are made to certain States for official correspondence up to an aggregate value of Rs. 3,12,385 per annum (Appendix VII, Schedule B). We recommend (para. 401) that :—

(1) No extension of the concession should be made to any State which is not at present in enjoyment of it.

(2) In the case of States which are now enjoying the concession :—

(a) no increase in the present value of the concession should be made unless the right to demand such an increase is specifically conceded under existing arrangements ;

(b) where the existing arrangements provide for a concession on a varying scale, steps should be taken, by negotiation with the States, to substitute a fixed figure.

(3) Existing concessions should be treated as immunities and, where there is no scope for setting them off against special contributions, endeavour should be made, by negotiation with the States concerned, to extinguish them in return for a cash composition.

Privileges enjoyed by certain States in regard to free carriage of their official correspondence cannot be arbitrarily withdrawn, but should be treated as immunities (para. 402). The aggregate value of these immunities has been estimated at Rs. 7,14,640 (Appendix VII, Schedule C).

After scrutiny of the privileges enjoyed by certain States in respect of telegraph systems we are of opinion that these cannot justifiably be treated as immunities (paras. 403-406).

*Coinage and Currency.*—We are unable to recommend any acceptance of claims for distribution of currency profits among federating units (paras. 408-409).

We examine the question whether the privileges enjoyed by certain States in respect of the issue of their own currency should be treated as immunities on the ground that they may limit, by competition or restriction, the free circulation of the federal currency.

After full consideration of the potentialities of currency issue as a source of profit we are not prepared to recommend that rights to issue metallic currency should be classified as immunities, but are unable to take the same view of a case where currency notes are

also issued. In the case of Hyderabad, the only State in possession of this double right, we have to recommend that it should be treated as an immunity. On the basis of population and active note circulation we attach to this immunity a cash value of approximately Rs. 17 lakhs per annum (paras. 410-411).

We also recommend that in any case where the reopening of mints closed under past agreements for a definite term of years, or the continued issue of metallic currency may be considered inimical to the interests of the federal currency, efforts should be made to arrange by negotiation, that such operations should be confined within purely nominal limits or to the production of coins intended for ceremonial as opposed to currency purposes (para. 412).

*Land Customs and Transit Duties.*—We agree with the Peel Committee that it is impossible for States to abolish immediately or in the near future the land customs barriers which most of them maintain, and that it would be unjustifiable to attempt to buy out such rights at the cost of federal revenues. In these circumstances, and having regard to the grievances arising out of existing anomalies and inequalities, we are inclined to favour the removal of restrictions on the levy of land customs duties in the relatively few cases where such restrictions are still in force. But, apart from the retrograde and anti-federal implications of such a measure, we entertain misgivings as to the consequences which might ensue from the possible erection of protective barriers. In so far, therefore, as we are able to formulate any recommendation, it is to the effect that, pending the attainment of the ideal of universal internal free trade, relaxation of existing restrictions should be permitted only in cases where there is no room for doubt that such action would be justified by local conditions and would not involve risk of serious repercussions on trade outside the territory of the State concerned (paras. 413-419).

We do not recommend any abrogation of existing arrangements for the abolition of the taxation of salt by States or for the abolition of transit duties. But all compensation payments now made to States in respect of such arrangements should, in our opinion, be treated as immunities (paras. 420-421). For reasons given in para. 422 it has not been possible to prepare a schedule detailing the payments concerned.

*Courtesy Concessions in respect of Sea Customs.*—For reasons given in paras. 428-429 we are unable to recommend any increase in the number of Rulers of Indian States who at present enjoy (a) the major concession of importing free of customs duty all goods intended for their personal use, or (b) the minor concession of passing their personal effects through the customs free of duty when returning to India from abroad.

We recommend the continuance of both concessions on the existing scale, but only subject to the condition that the major one should now be extended to the Viceroy and Governor General. We also advocate the extension of the minor concession to

all Governors of Provinces on entry into India to take up their appointments or on return from leave of absence (paras. 431-432).

We further recommend that the opportunity should be taken of constituting the Viceroy as the sole and final deciding authority in the event of any dispute arising in connection with these concessions (para. 433).

## CHAPTER IX.—CONCLUDING CHAPTER.

We regard our recommendations as applicable only for the purposes of a financial adjustment between the States and British India on their entry into Federation, and not for any other purpose (para. 435).

We have found it impossible to make recommendations providing for a uniform distribution of benefits and burdens either between the States and British India or between the States themselves (paras. 439-441).

We find that the financial adjustment with the States must take the form of a separate settlement with each State on its entry into Federation (para. 442).

We recommend that the settlements with individual States should be made on the principles which we have proposed in the foregoing Chapters ; but that, whenever it is proposed to remit an existing cash contribution or to give credit for the cession of territory, the value of any privilege or immunity enjoyed by the State in question should be set off against the proposed remission or credit ; and that no remission or payment should be made unless the credit exceeds the debit, and then only to the extent of the balance (para. 443).

We except from the above recommendation the case of cash contributions when in excess of 5 per cent. of the revenue of a State. This excess we propose should be immediately remitted (para. 443).

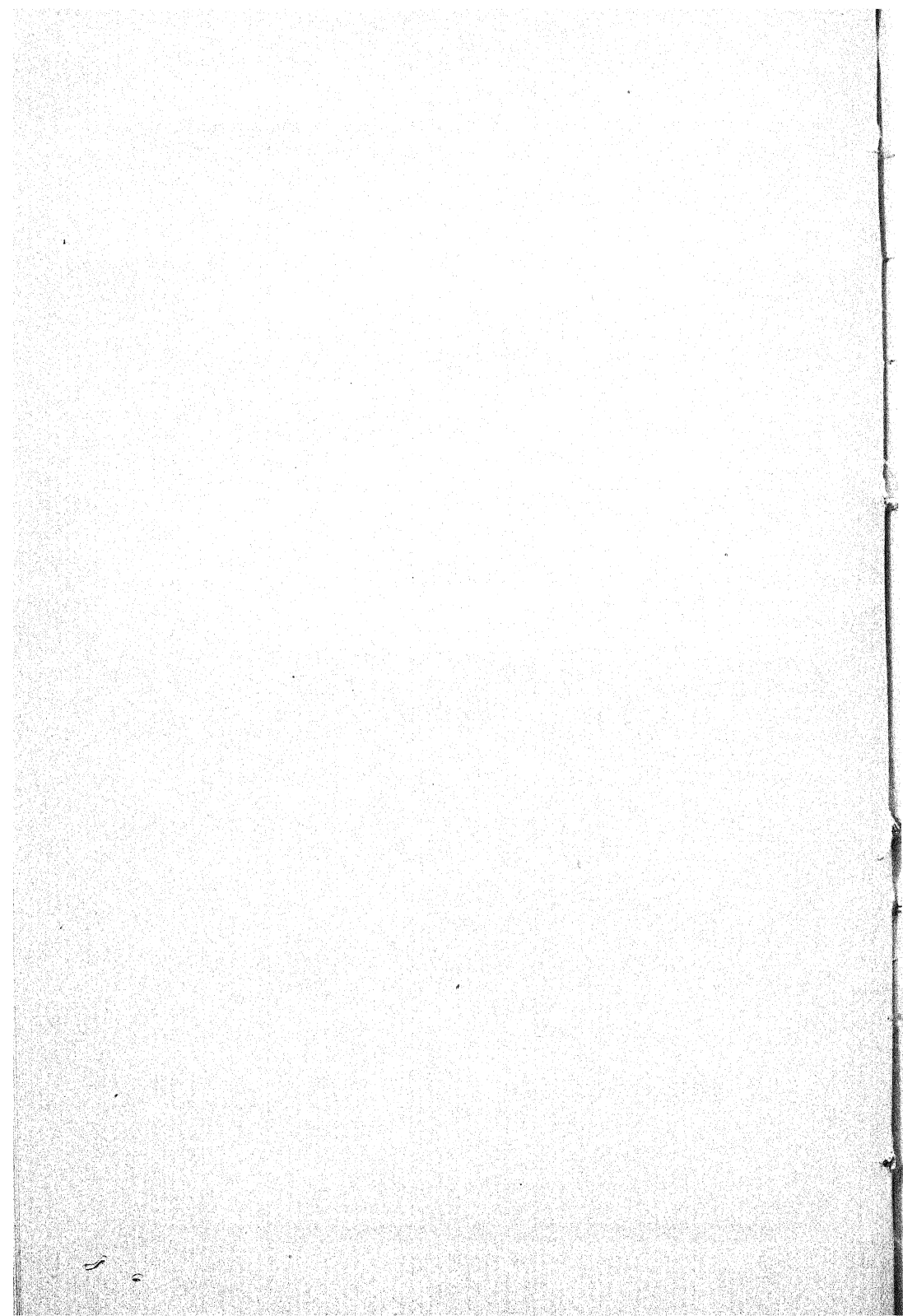
We are unable to give the aggregate annual value represented by the immunities and privileges which a number of States will continue to enjoy without making any equivalent contribution in return. We, however, estimate that our recommendations would impose on federal revenues an ultimate gross burden of approximately Rs. 1 crore per annum additional to that borne by the central revenues of the Government of India to-day. This figure, however, would be liable to a substantial reduction by reason of the set-off which we recommend, and of any increase in federal revenues resulting from recommendations which we have made in the field of immunities (paras. 445-446).

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APPENDICES.

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## APPENDIX I.

**Extract from Report of Federal Finance Sub-Committee of Federal Structure Committee of Indian Round Table Conference, September-December, 1931.**

16. *Provincial Contributions*.—We have, subject to certain reservations, proposed the allocation to the Provinces of the proceeds of taxes on Income, without, so far, any corresponding reinforcement for the Federal Government. If the Expert Committee unexpectedly found that Federal resources were such as to give a secure prospect of recurring revenues sufficient to meet this loss immediately (and also a loss in respect of the heads dealt with in paragraph 17 below), many difficulties would, of course, be removed. But, on the provisional basis set out in paragraph 4, we are bound to assume that there may be a substantial Federal deficit, due to the allocation of Income-tax to the Provinces. The deficit, in so far as it arises from the above cause, should, we suggest, be met by Contributions from the Provinces, to be divided between them either on the basis of their respective revenues or of population, or according to some other defined method. The Expert Committee should consider what is the most appropriate basis. This basis need not necessarily be the same as that on which the Income-tax proceeds are distributed. Differentiation between the two methods might be used as a means of partially adjusting the burden on Provinces which are specially hard hit by the existing distribution of resources between them.

We further propose that, not merely should it be the declared object of the Federal Government, as its position improves, to reduce and ultimately extinguish these Contributions, but the constitution should specifically provide for their extinction by the Federal Government by annual stages over a definite period, say, ten or fifteen years.

17. *States' Contributions*.—In the scheme proposed above, the Federal burdens will be spread over all the Units of the Federation in a precisely similar manner except for :—

(a) The above-mentioned Contributions from the Provinces, until such time as they are finally abolished ;

(b) such direct or indirect contributions as are, or have been, made by certain States, of a kind which have no counterpart in British India ;  
and

(c) varying measures of immunity in respect of Customs and Salt enjoyed by certain States.

We now turn to consider what the States' contributions are, or may be ; but, at the outset, we would lay down the general principle that, subject to certain exceptions specified below, the direct or indirect contributions from the States referred to at (b) should be wiped out *pari passu* with the Provincial Contributions mentioned in the preceding paragraph.

18. *Cash Contributions from States and Ceded Territories*.—The direct or indirect contributions from the States just referred to may arise, or are alleged to arise, under the following heads :—

(i) cash contributions ;

(ii) value of ceded territories ;\* and

(iii) contributions in kind for Defence by the maintenance of State Forces.

(i) Cash contributions from States (till recently known as tributes) have arisen in many different ways, and it has been impossible for us to examine the cases of individual States. Nevertheless, we think that there is, generally speaking, no place for contributions of a feudal nature under the new Federal Constitution ; and only the probability of a lack of Federal resources at the outset prevents our recommending their immediate abolition. We definitely

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\* This term does not include the leased territory of Berar.

## APPENDIX I—(contd.).

propose that they should be wiped out *pari passu* with the Provincial Contributions discussed in paragraph 16 above. Meanwhile, there seem to us to be certain cases in which real hardship is inflicted by the relative magnitude of the burden of the cash contributions; and we suggest that it might be possible, without excessive loss being thrown on the Federal Government, to remit at once that part of any contribution which is in excess of 5 per cent. of the total revenues of a State. Apart from this, the circumstances under which the contributions have been levied vary so much that it is necessary for the Expert Committee to undertake (what it has been impossible for us to execute) a detailed examination of each individual case, and, with the above general principles in mind, to express an opinion as to what would be equitable treatment for each of the States in question.

(ii) Without the necessary statistics, we are unable to investigate in detail the claim of the States that, through having ceded territory, some of them will be liquidating a liability in respect of Federal burdens. Here again we propose that the Expert Committee should examine the whole question, and pronounce an opinion as to the equities in each individual case.

19. *State Forces*.—(iii) Any attempt to assess the financial value to the Federation of the State Forces would raise many intricate problems into which it has been impossible for us to enter. Close consultation with the Military Authorities and with individual States would be necessary before any solution of this problem could be found. The maintenance and availability of these Forces is at present optional for the States concerned; and we think it likely that, before any credit was given to a State on account of the Force which it maintains, the Federal Authorities would, at all events, wish to prescribe:—

(a) That the Forces should be efficient according to a standard of which the Military Authorities should be the judge, and should also be required for purposes connected with the general Defence scheme of India; and

(b) that these Forces should, by some permanent arrangement, be made available for services to be determined by the competent Military Authorities.

In any case, we regard this as a separate question which should be taken up between the Military and Financial Authorities of the Federal Government on the one hand, and the individual States on the other. We further think that any financial adjustment should be a matter of bargaining between the parties concerned, and should be treated as a separate matter—not on the lines of (a) and (b) of paragraph 17.

20. *Maritime States and Kashmir*.—The States, being on the frontiers of India, are in a special position as regards the question of external Customs duties. Here again, we feel that it is impossible to deprive States of revenue of which they are already in possession. One principle which we would lay down is that, in all cases, the Import tariff at the States' ports should be not less than that at Ports in the rest of India. The question whether Maritime States should agree to the administration of Customs at their Ports being taken over by the Federal Department is obviously one of great importance but hardly comes within the sphere of our enquiry.

Our general conception of the problem is that the Treaties or agreements which vary widely in the different cases, must be taken as they stand, and that any decision as to what are the existing rights of a State, in those instances in which they are now in dispute, should be determined separately, with the least possible delay, and not by the Expert Committee. We think, however, that the latter should investigate the position in each State on its ascertained existing rights, and should express an opinion as to what commutation it would be worth while for the Federal Government to offer to the State for the extinction of any special privilege which it now enjoys. In doing so, the Committee might allow for any contributions of special value which a

## APPENDIX I—(contd.).

State may be making to the Federal resources. With this opinion before them, we think it should be left to the Federal Authorities, if they think fit, to negotiate with each State for the surrender of existing rights. The Expert Committee should also attempt to determine what, in the absence of any such surrender, would be the amount which Federal revenues lost owing to the existence of the special right of the State; and this valuation should be taken into account by the Federal Government whenever any question arose, as suggested in paragraph 14 above, of the Federation's distributing surplus revenue over the Federal Units.

## APPENDIX II.

**Memorandum to all local political authorities for distribution at their discretion to all Darbars interested in financial questions falling within the terms of reference of the States Enquiry Committee.**

It is essential that all darbars interested in the Committee's activities should read (a) the Report of the Federal Finance Sub-Committee of the Round Table Conference, 1931 (copies of which, it is understood, are being distributed by the Reforms Office of the Government of India) and (b) the first of the two letters addressed by the Prime Minister to the Committee's Chairman on 16th December, 1931. This letter contains the Committee's terms of reference. It was published in the Press throughout India on 14th January, and it is understood that copies have since been circulated by the Government of India.

2. The matters thus committed to the Committee for examination fall into two main heads:—

(a) Certain privileges or immunities at present enjoyed by certain States. These mainly relate to sea customs and salt, but there are others in connection with Posts and Telegraphs. For instance, several maritime States collect and appropriate sea customs at their own ports. Cochin and Travancore obtain a share of the collections at the British port of Cochin, and Kashmir, under a special treaty, obtains a refund of sea customs duty on goods imported into the State in bond. As regards salt, some States supply their inhabitants from local sources of manufacture, others obtain a free grant of salt or a cash compensation in consideration of their having suppressed, or made over to the Government of India, local sources of supply. In the matter of posts and telegraphs many states enjoy privileges not enjoyed by local governments of British Indian provinces inasmuch as they possess agreements entitling them to the free carriage of their official correspondence or to a free grant of service stamps.

(b) Certain contributions of a special character which many States are now making or have made in the past to the resources of the Government of India. These consist in the main of (1) cash contributions or "tributes" and (2) value of territories ceded in the past in return for guarantees of protection. It may further be held that the forces maintained by certain States also constitute a contribution of this kind in cases where they possess a definite all-India as opposed to a local value and have assigned to them service of this character.

3. In regard to the privileges and immunities referred to in paragraph 1 (a) above, the Committee desire to have the fullest information to enable them to judge of their value to the States and the probable amount which would be diverted from what are *prima facie* the legitimate revenues of the new Federal Government in the event of their continuation under federation. In the case of customs it is particularly desirable to collect the fullest and most accurate statistics of collections or recoveries in recent years and any information bearing on future prospects in regard to the development or deterioration of trade at the ports concerned. In the case of salt and Posts and Telegraphs, the presentation of the necessary information should be a matter of little difficulty.

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## APPENDIX II—(contd.).

4. On the assumption that the States concerned will naturally desire the continuation of these privileges and immunities to the utmost possible extent, Darbars are invited to set forth in detail their arguments in support of this proposition and refuting, in so far as they desire to do so, the contrary proposition that the Federal Government ought to be in a position to absorb all revenues from federal subjects and that all federating units should, so far as possible, bear these burdens on a uniform equal basis. It will be borne in mind that this latter proposition is the main basis for the suggestion that the special contributions (tributes, etc.) payable by certain States should not be allowed to continue under a Federal Government.

5. The information which the Committee desire to receive in regard to these special contributions is as follows. As regards *cash contributions or tributes*, they desire to receive from each State concerned a statement showing :—

- (a) The amount paid (in British rupees).
- (b) To whom it is paid (*i.e.*, to the Government of India or to another state).
- (c) A brief account of the origin and purposes of the payment.
- (d) The proportion which the contribution bears to the total normal revenue of the state concerned.
- (e) Any arguments which the state may desire to put forward to support a request for remission.

6. *As regards ceded territories* the Government of India have already arranged in practically all such cases for a detailed examination with a view to identify the areas in question and to estimate their present value. The results of these enquiries which have been carried out in consultation with the States concerned, are expected to be available very shortly and will be supplied to the Darbars who are requested to forward to the Committee any comments or criticisms which they may have to offer as to their accuracy and also, if they so desire, their views as to the kind of action which might be taken to rectify any grievances or features in this connection which appear to them to be inconsistent within equitable system of federal finance.

7. In the case of any cessions which are considered to come within the scope of the Committee's terms of reference, but in regard to which information has not yet been collected by the special committee appointed by the Government of India, the Darbars concerned are requested to forward full details of the areas in question, the circumstances of their cession and any available information bearing on the question of their present value.

8. In the last paragraph of the Prime Minister's letter to the Chairman it has been left open to the Committee to take into account any existing facts in the financial or contractual relations between states and the British Government in India which are not specifically mentioned in the terms of reference but which seem to have a close bearing on the financial position of states in a federal India.

While it is conceivable that financial grievances may be brought to the notice of the committee the rectification of which may seem to them a reasonable requirement as part of the terms on which a State would adhere to the federation, it should be assumed that the Committee's interpretation of its terms of reference will ordinarily be narrow rather than broad.

9. It is hoped that all States interested in any of the above matters will make every effort to ensure that the material required, as indicated above, shall reach the Committee in good time before any oral discussions take place.

There is no objection to such material being forwarded direct, to save time, to the Secretary of the States Enquiry Committee, Camp, India, but copies should be simultaneously supplied to the Political authority or local Government concerned. If these latter have any comments to offer thereon, they are requested kindly to communicate them to the Committee as soon as possible.

## APPENDIX III.

## CASH CONTRIBUTIONS.

## SCHEDULE A.

## Contributions imposed or negotiated by British Government :—

- (1) in acknowledgment of suzerainty, including obligations to aid and protect on the one side, and to give subordinate co-operation on the other ;
- (2) in commutation of obligations for the provision of a State " contingent force " or other form of military assistance ;
- (3) for maintenance of a British " subsidiary force " ;
- (4) fixed on the creation or restoration of a State, or on a re-grant or increase of territory (including annual payments for grants of land on perpetual tenure and for equalisation of the value of exchanged territory) ;
- (5) for special or local purposes, such as the maintenance of local corps, police, etc.

## SCHEDULE B.

## Contributions originally paid to another State, but subsequently acquired by the British Government :—

- (6) by conquest or lapse of the original recipient ;
- (7) by assignment from the original recipient.

## APPENDIX III.

## SCHEDULE A.

## Contributions imposed or negotiated by British Government :—

- (1) in acknowledgment of suzerainty, including obligations to aid and protect on the one side, and to give subordinate co-operation on the other.

<i>Serial number in Appendix IV.</i>	<i>Name of State.</i>	<i>Amount. Rs.</i>	<i>Remarks.</i>
<i>Rajputana Agency.</i>			
135.	Bundi	.. 40,000	Tribute payable under Treaty of 1818, article 6, as " Chauth " (or one-fourth of revenue) of Bundi and other places.
			Article 2 promised Bundi the protection of the British Government.
141.	Jaipur	.. 4,00,000	Tribute payable under Treaty of 1871, whereby stipulation in Treaty of 1818, in which protection accorded to Jaipur, for a tribute of Rs. 8 lakhs, was amended.



## APPENDIX III—(contd.).

## SCHEDULE A.

## Contributions imposed or negotiated by British Government :—

(1) in acknowledgment of suzerainty, including obligations to aid and protect on the one side, and to give subordinate co-operation on the other.

<i>Serial number in Appendix IV.</i>	<i>Name of State.</i>	<i>Amount. Rs.</i>	<i>Remarks.</i>
<i>Rajputana Agency—(contd.).</i>			
150.	Sirohi ..	6,881	Sum to which tribute of Rs. 13,763, fixed under Treaty of 1823 according protection, was reduced in recognition of Mutiny services. (The original tribute was by the treaty to be determined three years after its conclusion, subject to its not exceeding three-eighths of the State's revenue.)
148.	Udaipur ..	2,00,000	By the Treaty of 1818 according protection the tribute was fixed at one-fourth of the State's revenue for five years and thereafter three-eighths in perpetuity. In 1826 the amount payable was limited to Rs. 3 lakhs and in 1846 was reduced on account of the financial embarrassment of the State to Rs. 2 lakhs, at which figure it has remained.
130.	Kotah ..	1,31,250	By Treaty of December, 1817, Kotah accepted the protection of the British Government and agreed to pay tribute at the rate formerly paid to the Mahrattas. At the time this amounted to about Rs. 2,70,000 and was shared between the Peshwa, Scindia, Holkar and Dhar. By the Treaty of November, 1817, with Scindia it had however been separately agreed that Scindia's shares of the Kotah tribute (Rs. 94,217 and Rs. 9,252) should be assigned by him for maintenance of the Gwalior Contingent. These amounts, therefore, though included in the total paid by Kotah, have been separately shown as assigned tributes [see Class (7) of this Appendix].

## APPENDIX III—(contd.).

## SCHEDULE A.

## Contributions imposed or negotiated by British Government :—

(1) in acknowledgment of suzerainty, including obligations to aid and protect on the one side, and to give subordinate co-operation on the other.

Serial number in Appendix IV.	Name of State.	Amount. Rs.	Remarks.
<i>Rajputana Agency—(contd.).</i>			
130. (contd.).	Kotah (contd.).		The portion of the Kotah tribute originally paid to the Peshwa was later remitted, and Rs. 80,000 was transferred to be paid by Jhalawar when created out of Kotah in 1838 as a separate State. Subsequently, Rs. 50,000 was retransferred to be paid by Kotah in 1899, when a portion of Jhalawar was again attached to Kotah [see Class (5) of this Appendix], leaving the amount shown to be paid by Kotah.
<i>Madras States Agency.</i>			
119.	Cochin	.. 1,00,000	Treaty of 1791, article 4, promised assistance in recovering possessions in occupation of Tipu Sultan in return for tribute and guaranteed protection.
<i>Mysore.</i>			
124.	Mysore	.. 24,50,000	Treaty of 1799, article 2, promised protection by a military force to Hindu dynasty restored on fall of Seringapatam in return for annual payment of 7 lakhs of Star Pagodas (Rs. 24½ lakhs).  Treaty of 1807 stipulated for upkeep by Mysore of 4,000 horse as a contingent force in lieu of pecuniary liabilities under the former treaty.  Instrument of Transfer, 1881, on transfer to Maharaja of management of administration, fixed total contribution at Rs. 35 lakhs and relieved him of obligation of maintaining contingent force. Same provisions in Treaty of 1913.  With effect from 1st April 1928, the contribution was reduced from Rs. 35 lakhs to its original figure of Rs. 24½ lakhs.

## APPENDIX III—(contd.).

## SCHEDULE A.

## Contributions imposed or negotiated by British Government :—

(1) in acknowledgment of suzerainty, including obligations to aid and protect on the one side, and to give subordinate co-operation of the other.

<i>Serial number in Appendix IV.</i>	<i>Name of State.</i>	<i>Amount. Rs.</i>	<i>Remarks.</i>
<i>Western India States Agency.</i>			
409.	Porbandar ..	15,000	By Agreement of 1809, article 1, Porbandar ceded half its port to the British Government with full participation in the rights thereof, and, by article 4, was assured British protection, for which purpose a British detachment was to be stationed at the port. Subsequently the British Government leased to Porbandar for Rs. 26,000 a year its rights in the port, and in 1853 withdrew the detachment, but reduced the payment to Rs. 15,000, at which it still stands.

(2) in commutation of obligations for the provision of a State "contingent force" or other form of military assistance.

<i>Serial number in Appendix IV.</i>	<i>Name of State.</i>	<i>Amount. Rs.</i>	<i>Remarks.</i>
<i>Central India Agency.</i>			
13.	Bhopal ..	1,61,290	By Treaty of 1818, article 6, Bhopal agreed to furnish a contingent of 600 horse and 400 infantry. This by Supplementary Article of 1849 was converted into a cash contribution to British Government for expenses of upkeep of the contingent, which since the Mutiny has been disbanded and its duties transferred to the regular British forces.

## APPENDIX III—(contd.).

## SCHEDULE A.

## Contributions imposed or negotiated by British Government :—

(2) in commutation of obligations for the provision of a State "contingent force" or other form of military assistance.

<i>Serial number in Appendix IV.</i>	<i>Name of State.</i>	<i>Amount. Rs.</i>	<i>Remarks.</i>
<i>Central India Agency—(contd.).</i>			
27.	Indore ..	Nil. (1,11,214)	Treaty of 1818, article 11, stipulated for retention of not less than 3,000 horse to co-operate with British Government. In virtue of this stipulation a contingent was formed by the British Government, and subsequently concentrated at Mahidpur, to which Indore, Jaora, and Dewas (q. v.) supplied forces. In 1841 the supply of troops in each case was commuted into a cash contribution, capitalized in 1865 for Rs. 23,81,520 to include as well an annual contribution of Rs. 7,862 towards the Malwa Bhil Corps—see Class (5)—the duties of the contingent, which mutinied in 1858, having been taken over by the regular British forces.
80.	Jaora.. ..	1,37,127	Treaty with Indore, 1818, article 12, whereby State of Jaora was created, stipulated for maintenance of 600 horse, subject to augmentation, in constant readiness for service. In 1823 the force was fixed at 500 horse and 500 foot with 4 guns. The force was used to form the Mahidpur Contingent and the obligation to furnish troops was commuted in 1842 into a money payment.
56. 60.	Dewas, Senior and Junior.	28,475	Treaty of 1818, article 2, stipulated for maintenance of 50 horse and 50 foot, augmented in 1827 to 75 horse and 200 foot, which were used for the Mahidpur Contingent. In 1842 the obligation was converted into a cash contribution of which each State pays a moiety.

## APPENDIX III—(contd.).

## SCHEDULE A.

## Contributions imposed or negotiated by British Government :—

(3) for maintenance of a British "subsidiary force."

<i>Serial number in Appendix IV.</i>	<i>Name of State.</i>	<i>Amount. Rs.</i>	<i>Remarks.</i>
<i>Madras States Agency.</i>			
120.	Cochin ..	1,00,000	Treaty of 1809, article 2; for expense of one battalion of native infantry.
121.	Travancore ..	3,81,456	Treaty of 1795, article 3; for expense of three battalions of sepoys, a company of European artillery and two companies of lascars.
122.	Do. ..	4,01,655	Treaty of 1805, article 3; for expense of one battalion of native infantry in addition to contribution under Treaty of 1795, and in quittance of obligation to supply a contingent force in time of war.

## Contributions imposed or negotiated by British Government :—

(4) fixed on the creation or restoration of a State, or on a re-grant or increase of territory (including annual payments for grants of land on perpetual tenure and for equalisation of the value of exchanged territory).

<i>Serial number in Appendix IV.</i>	<i>Name of State.</i>	<i>Amount. Rs.</i>	<i>Remarks.</i>
<i>Rajputana Agency.</i>			
137.	Jhalawar ..	30,000	On its creation in 1838 Jhalawar was charged with a tribute of Rs. 80,000, the tribute of Kotah out of which it was formed being correspondingly reduced. In 1899, when the direct line of the original Ruling House had become extinct, the State was regranted in a diminished form to the father of the present Ruler, the rest of its former territory reverting to Kotah, which became charged with Rs. 50,000 of the tribute originally fixed, leaving a balance of Rs. 30,000 to be paid by Jhalawar.



## APPENDIX III—(contd.).

## SCHEDULE A.

## Contributions imposed or negotiated by British Government :—

(4) fixed on the creation or restoration of a State, or on a re-grant or increase of territory (including annual payments for grants of land on perpetual tenure and for equalisation of the value of exchanged territory).

<i>Serial number in Appendix IV.</i>	<i>Name of State.</i>	<i>Amount. Rs.</i>	<i>Remarks.</i>
<i>Rajputana Agency—(contd.).</i>			
142.	Lawa ..	225	Created as a separate Chiefship in 1867 out of the State of Tonk, to which the Chief had paid a tribute of Rs. 3,000 per annum. This tribute was held to have accrued to the British Government, but was kept in abeyance to enable debts to be cleared off until 1883 when the present tribute was fixed.
<i>Central India Agency.</i>			
21.	Ajaigarh ..	7,014	Paid in respect of the taluqas of Ghora and Bichaun, which were granted to the Ruler of Ajaigarh, on restoration of his State after usurpation between 1792 and 1803 by the Peshwa's forces and subsequently by one Lachman Singh. These taluqas appear to have been held by Lachman Singh on lease and not in sovereignty and were so transferred to Ajaigarh; but they have in practice apparently since their grant been treated as if held under sovereignty like the remainder of the State.
22.	Bihat ..	1,400	Paid in respect of the district of Lohargaon, for which in 1829 the Ruler was granted a perpetual lease on his being unable to establish a title to this portion of the State, in which he had been confirmed in 1807 on the British occupation of Bundelkhand. In practice since the grant the Ruler has apparently exercised sovereignty in the district.

## APPENDIX III—(contd.).

## SCHEDULE A.

## Contributions imposed or negotiated by British Government :—

(4) fixed on the creation or restoration of a State, or on a re-grant or increase of territory (including annual payments for grants of land on perpetual tenure and for equalisation of the value of exchanged territory).

Serial number in Appendix IV.	Name of State.	Amount. Rs.	Remarks.
<i>Central India Agency—(contd.).</i>			
23.	Charkhari ..	8,584	Paid in respect of the pargana of Chandla and taluqa of Bhina which were leased to the Ruler of Charkhari in 1811 and 1809 respectively by the British Government, having been found in occupation by others when in 1803 the British on entering Bundelkhand restored the State to the Ruling Family of Charkhari. In practice since their grant the Ruler has apparently exercised sovereignty in these districts.
25.	Panna ..	9,955	For districts of Sheorajpur and Aktohan, found in occupation of Lachman Singh and others in 1803, and granted in perpetual lease to the Ruler of Panna in 1811 and 1835 respectively. They have apparently in practice been held in sovereignty.
28.	Indore ..	5,285	Annual payment on account of excess of land made over to Indore in territorial exchanges of 1861.
<i>Western India States Agency.</i>			
229.	Cutch ..	82,253	By Treaty of 1816, article 10, Cutch agreed <i>inter alia</i> to cede to the British Government the town and district of Anjar "as a friendly return for the essential services then agreed to be performed." <i>viz.</i> , restoration of possessions and aid of a force to reform and settle a disturbed district. In a Treaty of 1819 the State agreed to receive a British subsidiary force to remain until the British Government considered it could be withdrawn with safety. This force was to be paid from Cutch revenues.

## APPENDIX III—(contd.).

## SCHEDULE A.

## Contributions imposed or negotiated by British Government :—

(4) fixed on the creation or restoration of a State, or on a re-grant or increase of territory (including annual payments for grants of land on perpetual tenure and for equalisation of the value of exchanged territory).

<i>Serial number in Appendix IV.</i>	<i>Name of State.</i>	<i>Amount. Rs.</i>	<i>Remarks.</i>
<i>Western India States Agency—(contd.).</i>			
229. (contd.).	Cutch (contd.).		In 1822 Anjar was retroceded to Cutch on condition of the annual payment of a pecuniary equivalent of Rs. 82,253. By a Treaty of 1832 the State agreed to defray the cost of the subsidiary force up to a maximum of Rs. 2 lakhs (Ahmedabad Sicca) inclusive of the Anjar equivalent, and in the event of its reduction or withdrawal to continue a minimum annual contribution of the amount of this equivalent. The subsidiary force was completely withdrawn by 1911. The contribution still being made thus represents a cash commutation for the retroceded town and district.
192.	Bhavnagar ..	52,000	Payment known as Bhavnagar Jama made to British Government under Settlement of 1860 for villages in districts of Dhanduka, Gogho and Ranpore in which Bhavnagar was tacitly permitted to continue to exercise sovereign rights after their cession by the Peshwa to the British Government under the Treaty of Bassein, 1802.
<i>Assam.</i> 515.	Manipur ..	5,000 (50,000)	A tribute of Rs. 50,000 was imposed on the State in accordance with the terms of the Sanad of 1891 whereby it was regranted to its present Ruler after suppression of the rebellion in which five British officers were murdered. Previously no tribute had been paid. The payment was stated at the time to be in order to meet extra expenditure incurred on the State's behalf "as well as to admit its complete subordination." Among the items of expenditure incurred on the State's behalf are the maintenance of a battalion of the Assam Rifles and of a road in its territory.

## APPENDIX III—(contd.).

## SCHEDULE A.

## Contributions imposed or negotiated by British Government :—

(4) fixed on the creation or restoration of a State, or on a re-grant or increase of territory (including annual payments for grants of land on perpetual tenure and for equalisation of the value of exchanged territory).

<i>Serial number in Appendix IV.</i>	<i>Name of State.</i>	<i>Amount. Rs.</i>	<i>Remarks.</i>
<i>Assam—(contd.).</i>			
515. (contd.).	Manipur (contd.).		The tribute was reduced from 1920-21 for ten years, since extended to 1932-33, to its present amount on condition that the balance is spent on the improvement of the administration of the hill areas inhabited by primitive peoples.
<i>Bengal.</i>			
516.	Cooch Bhar ..	67,701	Cooch Behar agreed by Treaty of 1773 to acknowledge subjection to the East India Company, to be annexed to Bengal and to pay a tribute of half its revenues, on being granted protection against Bhutan which had made its Ruler prisoner and taken possession of his territory. The tribute was stabilized in 1780 at its present figure. In 1816 the British Government agreed that interference in the affairs of the State should be limited to advice, so long as they were properly conducted.
<i>United Provinces.</i>			
723.	Benares ..	1,90,000	In 1911 certain tracts of land in the United Provinces comprising part of the family domain of the successors of Raja Chet Singh were constituted into the State of Benares, the Maharaja being created a Ruling Prince. It was provided in the Instrument of Transfer, clause 6, that a tribute of Rs. 1,90,000 should be paid to the British Government to represent the loss of the surplus revenue from the lands affected. A further payment of Rs. 30,387 in respect of loss of revenue on country liquor and opium was imposed in 1912. In 1919 an additional tribute of Rs. 29,000 became payable under a Supplementary Instrument of Transfer of further territory to the State.
724.	.. ..	30,387	
725.	.. ..	29,000	

## APPENDIX III—(contd.).

## SCHEDULE A.

## Contributions imposed or negotiated by British Government :—

(4) fixed on the creation of restoration of a State, or on a re-grant or increase of territory (including annual payments for grants of land on perpetual tenure and for equalisation of the value of exchanged territory).

<i>Serial number in Appendix IV.</i>	<i>Name of State.</i>	<i>Amount. Rs.</i>	<i>Remarks.</i>
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*Punjab States Agency.*

127. Kapurthala .. Nil.  
(1,31,000)

The British Government, on obtaining the Jullundur Doab from the Lahore Government in 1846 after the first Sikh War, restored to the Ruler of Kapurthala his territory on the right bank of the Sutlej, subject to an annual payment of Rs. 1,38,000. This was reduced in 1847 to Rs. 1,31,000 in consideration of the exclusion of the Jagir of Nurmahal from Kapurthala.

The amount of the original contribution appears to have been determined by commuting on a cash basis the obligation of the State to furnish to the Lahore Government a contingent of horse and foot, a sum of Rs. 35,000 being deducted from the total in respect of certain former possessions of the Ruler not restored to him.

In 1924 the annual payment of Rs. 1,31,000 was remitted in consideration of the efficiency and cost of maintenance of the State Forces on the condition that—

(1) these should be adjudged efficient;

(2) their cost together with the tribute should exceed 15 per cent. of the State's revenues, and

(3) the remission might be reconsidered by the Government of India if financial or other reasons made this desirable.



## APPENDIX III.—(contd.)

## SCHEDULE A.

## Contributions imposed or negotiated by British Government :—

(4) fixed on the creation or restoration of a State, or on a re-grant or increase of territory (including annual payments for grants of land on perpetual tenure and for equalisation of the value of exchanged territory).

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<i>Serial number in Appendix IV.</i>	<i>Name of State.</i>	<i>Amount. Rs.</i>	<i>Remarks.</i>
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*Punjab States Agency—(contd.).*

126.	Chamba	..	2,307	The territories of all three States passed into British possession at the conclusion of the First Sikh War in 1846 and were regranted to their previous holders subject <i>inter alia</i> to an annual cash payment.
128.	Mandi	..	1,00,000	
129.	Suket	..	11,000	

In the case of Chamba the original contribution of Rs. 12,000 has been successively reduced to its present figure as compensation for the acquisition of Dalhousie and various lands required for military purposes.

In the case of Mandi there is evidence that the State was previously tributary to the Moghuls, also to the Lahore Government which in 1840 demanded Rs. 1,35,000.

125.	Bilaspur	..	8,000	The British Government in 1867 regranted to the State the parganas of Basse and Bachetru subject to an annual payment as "nazrana." These lands were originally in the possession of the Ruler but seized in 1819 by Ranjit Singh and alienated to another holder from whom they lapsed to the British Government in 1847.
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## APPENDIX III—(contd.).

## SCHEDULE A.

## Contributions imposed or negotiated by British Government :—

(4) fixed on the creation or restoration of a State, or on a re-grant or increase of territory (including annual payments for grants of land on perpetual tenure and for equalisation of the value of exchanged territory).

<i>Serial number in Appendix IV.</i>	<i>Name of State.</i>	<i>Amount. Rs.</i>	<i>Remarks.</i>
<i>Punjab.</i>			
<i>(a) Tributes.</i>			
711.	Bashahr	.. 3,945	The Gurkhas having been expelled in 1815 from the territories of the Chiefs of the hill districts between the Sutlej and Jumna rivers which they had overrun and occupied, the British Government granted Sanads to the Chiefs conferring on them for the most part the territory in their possession before the invasion, subject to conditions which usually included either an annual cash contribution or an obligation to furnish labour when required for the service of the British Government. The latter obligation has now in all cases been converted into an annual cash contribution. The original obligation was apparently to provide carriers for military transport. The commutation was assessed on the basis of the monthly wages of the stipulated number of carriers.
715.	Jubbal	.. 2,520	
721.	Nalagarh	.. 5,000	
716.	Kumharsain	.. 2,000	
<i>(b) Payments in commutation of Begar.</i>			
709.	Baghal	.. 3,600	The contributions of <i>Bashahr</i> , <i>Jubbal</i> , <i>Kumharsain</i> and <i>Nalagarh</i> are strictly tributes, as distinguished from cash commutation of labour supply. That of <i>Bashahr</i> , originally Rs. 15,000 but reduced in 1847 in compensation for abolition of transit duty, is stated to be for defraying the expenses of the British protecting force; those of <i>Nalagarh</i> and <i>Kumharsain</i> were imposed in 1840 and 1866 respectively when the States were regranted after lapse on failure of heirs; that of <i>Jubbal</i> was later substituted for an original obligation to furnish 70 carriers.
710.	Balsan	.. 1,080	
712.	Bhajji	.. 1,440	
713.	Bija ..	.. 124	
714.	Dhami	.. 720	
718.	Kuthar	.. 1,000	
717.	Kunihar	.. 180	
719.	Mailog	.. 1,440	
720.	Mangal	.. 72	
722.	Taroch	.. 288	

The contributions of *Bashahr*, *Jubbal*, *Kumharsain* and *Nalagarh* are strictly tributes, as distinguished from cash commutation of labour supply. That of *Bashahr*, originally Rs. 15,000 but reduced in 1847 in compensation for abolition of transit duty, is stated to be for defraying the expenses of the British protecting force; those of *Nalagarh* and *Kumharsain* were imposed in 1840 and 1866 respectively when the States were regranted after lapse on failure of heirs; that of *Jubbal* was later substituted for an original obligation to furnish 70 carriers.

All these contributions, in cash or in kind, having been imposed by the British Government as part of the conditions of restoration of the dispossessed Rulers to their territories, there appears to be no distinction of substance in their character.

## APPENDIX III—(contd.).

## SCHEDULE A.

## Contributions imposed or negotiated by British Government :—

(5) for special or local purposes, such as the maintenance of local corps, police, etc.

<i>Serial number in Appendix IV.</i>	<i>Name of State.</i>	<i>Amount. Rs.</i>	<i>Remarks.</i>
<i>Rajputana Agency.</i>			
151.	Jodhpur	.. 1,15,000	(A) <i>Towards cost of Mina Corps, stationed at Deoli and Erinpura.</i>
131.	Kotah	.. 2,00,000	
140.	Tonk	.. 5,000	

*Jodhpur* was required under Treaty of 1818, article 8, to furnish 1,500 horse for service with the British Government when required.

The obligation was in 1835 converted into a cash payment of Rs. 1,15,000 to meet the cost of the Jodhpur Legion, an irregular corps which after mutinying in 1857 was disbanded and replaced by the Erinpura Irregular Force, converted in 1904 into the 43rd Erinpura Regiment of the Indian Army, normally stationed at Erinpura in Sirohi. The Mina Corps, formed since the disbandment in 1921 of the 43rd Regiment, is maintained, as were the previous forces, to keep order in the countryside and to provide employment for a proportion of the Mina inhabitants.

*Kotah* agreed by Treaty of 1838 to the maintenance of an auxiliary force commanded and paid by British Officers at a cost not exceeding Rs. 3 lakhs per annum. The force was known as the Kotah Contingent. Kotah's contribution to it was in 1844 reduced to Rs. 2 lakhs. The troops mutinied in 1857 and from 1897 to 1921 the force was represented by the 42nd Deoli Regiment of the Indian Army, normally stationed at Deoli in Kotah. Since 1921, when the Regiment was disbanded, it has been replaced by the Mina Corps.

*Tonk* has, since the formation of the Mina Corps, contributed, voluntarily, Rs. 5,000 to its upkeep. Previously the State paid no contribution towards a local corps.

## APPENDIX III—(contd.).

## SCHEDULE A.

## Contributions imposed or negotiated by British Government :—

(5) for special or local purposes, such as the maintenance of local corps, police, etc.

<i>Serial number in Appendix IV.</i>	<i>Name of State.</i>	<i>Amount. Rs.</i>	<i>Remarks.</i>
<i>Rajputana Agency—(contd.).</i>			
149.	Udaipur ..	(66,000)	(B) <i>Towards cost of Mewar Bhil Corps.</i> This corps was raised in 1840 with a view to exercising a civilising influence on the Bhils in Mewar State. It also provides guards for residencies at Mount Abu and Udaipur. It is cantoned in the Bhumat of Mewar at Kherwara and Kotra. Nominally the cost of maintenance is met from the revenues of villages in the Mewar-Merwara district which have remained under British administration since they were occupied and divided between the British Government, Udaipur and Jodhpur in 1819-21. By the terms of an arrangement of 1863 Udaipur is entitled to any surplus available should the receipts of the district exceed Rs. 66,000, which amount was calculated to cover the cost of administration and the maintenance of the Mewar Bhil Corps and Merwara Battalion (another Local Corps since converted into troops of the line). Actually there is a loss on the administration of these villages and the entire cost of the corps is a direct charge on the revenues of India.
<i>Central India Agency.</i>			
29.	Indore ..	Nil.	(C) <i>Towards cost of the Malwa Bhil Corps.</i>
104.	Dhar ..	(7,862)	The corps was embodied in 1839 to provide employment and a civilising influence for the Bhils and to maintain order in the Bhil tract in Central India. It maintains guard duties at the Residency, Indore, (where the corps was transferred from Sardarpur in the Bhil tract in 1907) and in the Manpur Agency. Contributing States can demand detachments if necessary, and the corps has also been used in non-contributing States.
106.	Jhabua ..	1,271	
102.	Barwani ..	(18,602)	
99.	Ali Rajpur ..	3,390	
		1,271	

## APPENDIX III—(contd.).

## SCHEDULE A.

## Contributions imposed or negotiated by British Government :—

(5) for special or local purposes, such as the maintenace of local corps, police, etc.

<i>Serial number in Appendix IV.</i>	<i>Name of State.</i>	<i>Amount. Rs.</i>	<i>Remarks.</i>
<i>Central India Agency —(contd.).</i>			<p>(C) <i>Towards cost of the Malwa Bhil Corps—(contd.).</i></p> <p>The previous contribution of Gwalior, Rs. 20,000 (in respect of the State of Amjhera incorporated after the Mutiny in its territory), was remitted in 1925.</p> <p>The contribution of Indore, shown in brackets, was capitalised in 1865, together with its contribution towards the Mahidpur Contingent [see Class (2)]. That of Dhar represents the balance of Rs. 18,602 of which Rs. 12,000 was capitalised in 1880 by transfer of Government securities of the value of Rs. 3 lakhs.</p>
<i>Bombay States.</i>			
545.	Kolhapur	.. About Rs. 96,000 towards Kolhapur Infantry. About Rs. 48,000 towards Residency and pay of Resident.	<p>(D) <i>For Kolhapur Infantry, etc.</i></p> <p>In the Agreement of 1862, article 9, it was stipulated that the Ruler should defray, as long as might be considered necessary by Government, the expenses of the Agency including the salaries of the Agent and his establishment. Article 6 stipulated that the Kolhapur infantry should be maintained at its present strength under command of British Officers. The payments fluctuate in accordance with actual expenses.</p>
<i>Baroda.</i>			
1.	Baroda	.. 3,75,000	<p>(E) <i>For Police in Kathiawar, Rewa Kantha and Mahi Kantha.</i></p> <p>Supplement to Treaty of 1817, article 8, stipulated for provision by Baroda of a contingent force of 3,000 cavalry to act with the British subsidiary force. In course of time it came to be used to police the States of Gujerat paying tribute to the British Government and the Gaekwar.</p>



## APPENDIX III—(contd.).

## SCHEDULE A.

## Contributions imposed or negotiated by British Government :—

(5) for special or local purposes, such as the maintenance of local corps, police, etc.

<i>Serial number in Appendix IV.</i>	<i>Name of State.</i>	<i>Amount. Rs.</i>	<i>Remarks.</i>
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<i>Baroda—(contd.).</i>			(E) <i>For Police in Kathiawar, Rewa Kantha and Mahi Kantha—(contd.)</i>
			From 1841 Baroda contributed Rs. 3 lakhs per annum, in addition to paying for the upkeep of a British irregular force to aid the former force. The second force was disbanded in 1858 and the contribution remitted. From 1881 the Baroda contingent has also been disbanded and the British Government has become solely responsible for policing the tribute-paying States, Baroda having commuted its obligation for the present cash contribution which is deducted from the inter-State tributes collected by the British Government on its behalf. The total cost of the police force is Rs. 8,51,234.

## SCHEDULE B.

## Contributions originally paid to another State, but subsequently acquired by the British Government :—

(6) by conquest or lapse of the original recipient.

<i>Serial number in Appendix IV.</i>	<i>Name of State.</i>	<i>Amount. Rs.</i>	<i>Remarks.</i>
<hr/>			
<i>Madras States Agency.</i> 123.	Travancore ..	13,519	(A) <i>Derived from Nawab of Carnatic.</i> Equivalent of "peshkash" and "nazarana" agreed in 1764 to be paid to Nawab of Carnatic and lapsed to British Government.

## APPENDIX III—(contd.).

## SCHEDULE B.

Contributions originally paid to another State, but subsequently acquired by the British Government :—

(6) by conquest or lapse of the original recipient.

<i>Serial number in Appendix IV.</i>	<i>Name of State.</i>	<i>Amount. Rs.</i>	<i>Remarks.</i>
<i>Rajputana Agency.</i>			
138.	Shahpura ..	10,000	(B) <i>Derived from Scindia.</i> A Chiefship holding lands partly under Udaipur and partly under the British Government, the latter consisting of the pargana of Phulia in Ajmer-Merwara, granted by Aurungzeb to the Chief's ancestor in jagir, for which under a Sanad of 1848 he pays the tribute stated to the British Government.
<i>Central India Agency.</i>			
5.	Paldeo ..	117	(C) <i>Derived from Peshwa.</i> Originally paid to the Jahagirdar of Purwa, a member of the same family, in respect of his share of family property, but accrued to British Government in 1856 on confiscation of Purwa for rebellion.
6.	„ ..	125	
<i>Bombay States. Patwardhan Chiefs.</i>			
551.	Sangli ..	24,575	In commutation of obligations to furnish mounted contingents. These obligations derived from the terms of the grant of his lands by the Peshwa to the founder of the Patwardhan family. They became divided between the members of the family in accordance with their shares of land. In 1819, on the overthrow of the Peshwa, the British Government reduced the strength of the contingents to be furnished to one-fourth, and offered the option of assignment of land to produce a contribution at the rate of Rs. 300 per annum per mounted man or an annual payment of that amount in lieu of service. Sangli adopted the first alternative (see Chapter IV, paragraph 159 of our Report, where the existing cash contribution is explained); the other States continued the obligation to supply troops until 1848-9, when this was converted into a cash contribution as stated.
546.	Kurundwad, Senior and Junior. ..	9,619	
544.	Jamkhandi ..	20,841	
547.	Miraj Senior ..	12,558	
548.	Miraj Junior ..	6,412	

## APPENDIX III—(contd.).

## SCHEDULE B.

Contributions originally paid to another State, but subsequently acquired by the British Government :—

(6) by conquest or lapse of the original recipient.

<i>Serial number in Appendix IV.</i>	<i>Name of State.</i>	<i>Amount. Rs.</i>	<i>Remarks.</i>
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## Bombay States—(contd.).

## Satara

## Jagirdars.

693.	Akalkot	..	14,592
628.	Bhor ..	..	4,687
541.	Jath ..	..	11,247
692.	Phaltan	..	9,600

## (C) Derived from Peshwa—(contd.).

The Jagirdars were bound to furnish military services to the Ruler of Satara, which State was recreated by the British Government in 1819 on the fall of the Peshwa, in respect of their grants of land. These obligations accrued to the British Government on the lapse in 1848 of the Satara State, and the specified contingents were at various dates converted into cash contributions representing about two-thirds of the cost of the contingents.

*Bhor* claims that its tribute is Rs. 9,627, the difference between this and the amount actually paid being due to a set-off. The data which would enable us to advise as regards the validity of this claim are not available to us, but the claim merits further consideration.

*Jath's* payment includes a tribute of Rs. 4,847 "on account of certain rights inherited from the Raja of Satara and some other similar sums on account of rights in other districts."

549.	Mudhol	..	2,672
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The Chief was under obligation to supply a contingent of horse for the Peshwa's service which was reimposed by the British Government in 1814 and commuted in 1819 into a money payment.

550.	Ramdurg	..	3,089
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A payment was imposed on the Ruler in 1762 by the Peshwa for a Jagir originally granted by Savanur. This was reimposed in 1821 by the British Government at a reduced figure, part being demanded from another State since lapsed to the British Government.

## APPENDIX III—(contd.).

## SCHEDULE B.

Contributions originally paid to another State, but subsequently acquired by the British Government :—

(6) by conquest or lapse of the original recipient.

<i>Serial number in Appendix IV.</i>	<i>Name of State.</i>	<i>Amount. Rs.</i>	<i>Remarks.</i>
<i>Bombay States—(contd.).</i>			<i>(C) Derived from Peshwa—(contd.).</i>
543.	Cambay ..	21,924	Gujarat and Kathiawar, including besides a large portion of British Indian territory the numerous States and Estates of Kathiawar, Banas Kantha, Rewa Kantha, Mahi Kantha and several smaller Agencies, were at the beginning of the 18th century for the most part under the control of the Moghul Empire. By the middle of that century the Peshwa and the Gaekwar had jointly established supremacy there and placed the States under tribute. The tributes were levies exacted under pressure of periodical invasion by a Mahratta force. Many States were tributary simultaneously to the Peshwa and the Gaekwar, while in Mahi Kantha the Rajput State of Idar and in Kathiawar the Muhammadan State of Junagadh, the first tributary to the Gaekwar and the second both to the Gaekwar and the Peshwa, made up their payments by levies on their own account from smaller States. The tributes still paid by States in this area to the Gaekwar, Jungadh, and Idar and a few other States are shown in Appendix IV. Those now paid to the British Government (other than a few which are classified elsewhere under their appropriate heads) were acquired and settled as follows. By the Treaty of Bassein, 1802, the Peshwa undertook to provide a contingent (6,000 infantry and 10,000 horse, reduced in 1803 to 3,000 infantry and 5,000 horse) for service with a British subsidiary force, for payment of which he ceded certain tributes as well as territory. These cessions included the "Chauth" or a quarter of the revenues of Cambay,
694.	Bansda ..	153	
		(7,351)	
695.	Dharampur ..	9,000	
<i>Mahi Kantha Agency.</i>			
591.	Malpur ..	430	
606.	Ranasan ..	3	
<i>Western India States Agency.</i>			
298.	Junagadh ..	28,394	
386.	Nawanagar ..	50,312	
193.	Bhavnagar ..	153	
410.	Porbandar ..	21,202	
246.	Dhrangadhra ..	40,671	
378.	Morvi ..	9,263	
269.	Gondal ..	49,096	
496.	Vankaner ..	17,422	
357.	Limbdì ..	44,128	
358.	" ..	43	
415.	Rajkot ..	18,991	
511.	Wadhwan ..	25,922	
512.	" ..	87	
287.	Jasdan ..	7,694	
507.	Virpur ..	3,418	
343.	Kotda Sangani ..	10,189	
290.	Jetpur ..	50,262	
345.	Kotharia ..	948	
265.	Gavridad ..	1,011	
395.	Pal ..	1,253	
360.	Lodhika ..	1,287	
171.	Bantwa ..	29,642	
349.	Lakhtar ..	6,763	
350.	" ..	124	
451.	Sayla ..	15,001	
226.	Chuda ..	6,324	
227.	" ..	143	
381.	Mulì ..	7,501	
168.	Bajana ..	7,880	
169.	" ..	58	

APPENDIX III—(contd.).

SCHEDULE B.

Contributions originally paid to another State, but subsequently acquired by the British Government :—

(6) by conquest or lapse of the original recipient.

Serial number in Appendix IV.	Name of State.	Amount. Rs.	Remarks.
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Western India States Agency—(contd.).

(C) Derived from Peshwa—(contd.).

406.	Patdi ..	3,219	Dharampur and Bansda (against
407.	" ..	2,682	the last of which there have been
498.	Vanod ..	1,953	subsequent adjustments reducing the
419.	Rajpur ..	2,412	actual payment from Rs. 7,351 to
160.	Anandpur ..	715	its present figure of Rs. 153) also
490.	Vana ..	3,715	apparently the tributes of Malpur and
469.	Tavi ..	313	Ranasan.
256.	Gadhka ..	643	The Peshwa having leased to the
371.	Mengani ..	3,412	Gaekwar in 1800 his share of the
500.	Vasavad ..	766	proceeds of tributes and other re-
457.	Shahpur ..	464	ceipts included in the " farm of
176.	Bhadwa ..	1,394	Ahmedabad," an arrangement which
421.	Rajpura ..	2,922	continued up to 1814, the whole of the
341.	Kotda Pitha ..	4,850	Mahratta collections in Gujerat during
337.	Khirasra ..	2,366	this period were for the benefit of
158.	Amreli ..	1,621	Baroda. The British Government by
480.	Vadali ..	246	its Treaty of 1802 with the Gaekwar
461.	Sisang Chandli ..	720	had secured a wide power of control
509.	Vivra ..	149	over the administration of Baroda, and
307.	Kankasiali ..	84	took opportunity to mediate, first in
363.	Mahuva ..	120	Kathiawar in 1807 and later in Mahi
309.	Kanpur Ish- varia.	230	Kantha in 1811-12, arrangements
181.	Bhaldhoi ..	204	with the tributary Chiefs binding
244.	Dhrafa ..	3,706	them to pay their dues to the Gaekwar
449.	Satudad ..	1,466	through the British Government on
157.	Amrapur ..	511	the average of what had been col-
383.	Mulila Deri ..	1,279	lected during the ten preceding years,
223.	Chotila ..	652	with a view to obviating the necessity
224.	" ..	25	for forcible collection by the Gaek-
373.	Mevasa ..	445	war's troops.
197.	Bhimora ..	307	By the Treaty of 1817 the Peshwa
219.	Chobari ..	154	substituted for his maintenance of a
444.	Sanosra ..	186	contingent force the cession of further
170.	Bamanbore ..	76	territory and rights to provide funds
425.	Ramparda ..	75	for its support. These cessions in-
173.	Bhadli ..	1,101	cluded the tribute of Kathiawar, then
314.	Kariana ..	850	estimated, after deducting the ex-
325.	Khambhala ..	406	pense of collection, at Rs. 4 lakhs. At
278.	Itaria-Ghadala ..	252	the same time the Peshwa ceded to the
153.	Akadia ..	129	Gaekwar his remaining share in the
389.	Nilvala ..	511	revenues of Gujerat, which the
302.	Kamadhia ..	377	Gaekwar in turn ceded to the British
			Government in a treaty of the same



## APPENDIX III—(contd.).

## SCHEDULE B.

Contributions originally paid to another State, but subsequently acquired by the British Government :—

(6) by conquest or lapse of the original recipient.

Serial number in Appendix IV.	Name of State.	Amount. Rs.	Remarks.
<i>Western India States Agency—(contd.).</i>			
<i>(C) Derived from Peshwa—(contd.).</i>			
413.	Rai Sankli ..	556	year in return for an increase in the
296.	Jhinjuwada ..	11,073	subsidiary force, though contracting
250.	Dudhraj ..	1,102	to pay the Peshwa Rs. 4 lakhs
295.	Jhampodad ..	138	annually for the cession, an obligation
467.	Talsana ..	913	which lapsed on the Peshwa's fall the
385.	Munjpur ..	603	following year. The Peshwa's ces-
178.	Bhadvana ..	998	sions of 1802 and 1817 were in return
324.	Kesaria ..	278	for military protection of a specific
238.	Devalia ..	467	character. But the obligation to
190.	Bhathan ..	641	render this lapsed on the fall of the
293.	Jhamar ..	464	Peshwa in 1818, and the tributes,
180.	Bhalala ..	474	which now amount in Kathiawar
397.	Palali ..	357	alone to Rs. 5,53,017, ceased to be
232.	Kherali ..	678	attached to the provision of military
482.	Vadod ..	1,252	protection.
272.	Gundiala ..	1,408	After the fall of the Peshwa, the
352.	Laliad ..	362	British Government, who had already
199.	Bhoika ..	1,759	acquired his share of the Kathiawar
200.	" ..	99	tributes under the Treaty of 1817, con-
327.	Khambhavl ..	730	cluded in 1820 a convention whereby
267.	Gedi ..	1,200	the Gaekwar would no longer send
311.	Kantharia ..	1,491	troops into Kathiawar or Mahi Kantha
312.	" ..	89	to collect tributes without the consent
230.	Darod ..	366	of the Company's Government and
280.	Jakhan ..	242	would prefer only through the Com-
303.	Kamalpur ..	776	pany his claims to such tributes, the
433.	Sahuka ..	519	Company engaging to collect and pay
184.	Bhalgamda ..	1,400	them to the Gaekwar free of expense.
319.	Karol ..	703	Similar settlements were made in 1820
492.	Vanala ..	396	and succeeding years for the tributes
476.	Untdi ..	493	due to Baroda and Idar in Rewa
163.	Ankevalia ..	1,300	Kantha.
329.	Khandia ..	806	The general effect of these engage-
330.	" ..	13	ments has been to make the British
440.	Samla ..	959	Government responsible for the levy
207.	Chanchana ..	318	in these areas not only of the tributes
212.	Chalala ..	971	it had itself acquired from the Pesh-
213.	" ..	73	wa and the Gaekwar, but also of
316.	Karmad ..	140	those still paid to the Gaekwar, Juna-
317.	" ..	59	gadh, Idar, etc., by the tributary
232.	Dasada ..	12,968	States. From the Baroda tributes is
233.	" ..	74	deducted the amount of Rs. 3½ lakhs

## APPENDIX III—(contd.).

## SCHEDULE B.

Contributions originally paid to another State, but subsequently acquired by the British Government :—

(6) by conquest or lapse of the original recipient.

<i>Serial number in Appendix IV.</i>	<i>Name of State.</i>	<i>Amount. Rs.</i>	<i>Remarks.</i>
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## Western India States Agency—(contd.).

## (C) Derived from Peshwa—(contd.).

399.	Paliad ..	907	for which it became liable [see Class (5) of this Appendix] in replacement of the contingent force which it previously maintained, as a contribution towards the policing of the smaller States and Estates of these areas of which the administration is under British control. The rest of the cost of administration is met mainly by <i>ad hoc</i> contributions from the States and Estates, which are included in various groups for this purpose, the balance being found from British revenues.
369.	Matra Timba ..	290	
188.	Bharejda ..	94	
189.	" ..	32	
465.	Sudamada-Dhandhalpur.	2,381	
453.	Sejakkpur ..	316	

The second of two figures shown against various States in the list of payments are miscellaneous dues [called Sukhdi (sweet-meats), Peshkash, Ghasdana (forage), Saliana Vero (yearly dues) ], which were surrendered by the Peshwa and until 1914 were treated as land revenue of Ahmedabad district into which they were paid. Since that date they have been re-classified as similar to tribute and are therefore now credited to the Government of India instead of as formerly to the Government of Bombay.

## States of Bihar and Orissa and Central Provinces.

## (a) Fixed.

517.	Athgarh ..	2,800
518.	Athmallik ..	480
520.	Baramba ..	1,398
521.	Baud ..	800
523.	Daspalla ..	661
524.	Dhenkanal ..	5,099

## (D) Derived from Raja of Nagpur.

Thirty-seven States situated in the Province of Bihar and Orissa and the Central Provinces which pay (a) fixed, and (b) fluctuating tribute to the British Government survive from the States subject to the Bhonsla Raja of Nagpur previous to the Treaty of Deogaon, 1803. Relations with these

## APPENDIX III—(contd.).

## SCHEDULE B.

Contributions originally paid to another State, but subsequently acquired by the British Government :—

(6) by conquest or lapse of the original recipient.

Serial number in Appendix IV.	Name of State.	Amount. Rs.	Remarks.
<i>States of Bihar and Orissa and Central Provinces—(contd.)</i>			
<i>(a) Fixed—(contd.).</i>			<i>(D) Derived from Raja of Nagpur—(contd.).</i>
526.	Hindol ..	551	States were established by the British Government at various dates between 1803 and 1855 when the State of Nagpur was finally annexed to British India. All the States paying fixed tributes were separated from the suzerainty of Nagpur after the Treaty of Deogaon; of the remainder some remained under the nominal suzerainty of Nagpur until 1855, though in practice from 1819, when the State was regranted after the rebellion of its Ruler in concert with the Peshwa, its relations with its feudatories had been mediated through British Officers.
528.	Keonjhar ..	1,710	
529.	Khandpara ..	4,212	
530.	Mayurbhanj ..	1,068	
531.	Narsingpur ..	1,456	
532.	Nayagrah ..	5,525	
533.	Nilgiri ..	3,900	
534.	Pal Lahra (through Keonjhar).	267	
536.	Ranpur ..	1,401	
539.	Talcher ..	1,040	
540.	Tigiria ..	882	
<i>(b) Fluctuating.</i>			All those tributes which originated under the Nagpur Government have been classed as acquired by conquest or lapse. But the terms of the Sanads granted to the Chiefs by the British Government might render equally appropriate the classification of their tributes under Class (5) of this Appendix. The basis on which the "fluctuating" tributes were assessed, after Sir R. Temple's enquiry in 1863, appears to have been that the tribute should be the balance of revenue available after allowing a reasonable amount for the cost of administration and maintenance of the Ruler. In a subsequent revision in 1887 the tributes were generally assessed at 10 per cent. of the gross revenue. But Kawardha, Khairagarh, Nandgaon and Chhuikhadan States created by the Bhonsla Raja, were assessed at 33½ per cent. In the revision of 1907-8 the percentage basis was abandoned in favour of that adopted in 1863.
<i>Nagpur Group.</i>			
696.	Bastar ..	18,000	
698.	Chhuikhadan ..	12,000	
527.	Kalahandi ..	16,000	
700.	Kawardha ..	30,000	
701.	Khairagarh ..	80,000	
703.	Nandgaon ..	80,000	
<i>Chhota Nagpur Group.</i>			
522.	Bonai ..	2,700	
697.	Changbhakar ..	150	
525.	Gangpur ..	10,000	
699.	Jashpur ..	2,000	
702.	Korea ..	750	
707.	Surguja ..	3,500	
708.	Udaipur ..	1,200	
<i>Sambhalpur Group.</i>			
519.	Bamra ..	7,500	
706.	Sarangarh ..	4,500	
535.	Patna ..	13,500	
704.	Raigarh ..	5,500	
537.	Rairakhol ..	2,000	
705.	Sakti ..	1,500	
538.	Sonpur ..	12,000	

## APPENDIX III—(contd.).

## SCHEDULE B.

Contributions originally paid to another State, but subsequently acquired by the British Government :—

(7) by assignment from the original recipient.

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<i>Serial number in Appendix IV.</i>	<i>Name of State.</i>	<i>Amount. Rs.</i>	<i>Remarks.</i>
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(A) *Cessions by Baroda.*

For a detailed examination of the cash, as opposed to territorial, cessions by Baroda in return for a subsidiary force, under the Treaties of 1802, 1805, 1808 and 1817, see Supplementary Report of Special Committee, 1932, Chapters XI and XII and Appendix IV. The only payments on this account now realised in the form of tribute appear to be the following :—

*Bombay States.*

633.	Balasinor ..	9,766	Tribute to Peshwa, settled by Major Ballantine in 1812 and included in "farm of Ahmedabad," which was granted by the Peshwa to the Gaekwar and ceded by the latter to the British Government under Schedule B attached to Article 3 of the Supplemental Treaty of 1817.
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*Western India States Agency.*

194.	Bhavnagar ..	75,657	Tribute to Gaekwar, assigned by him <i>inter alia</i> under the Memorandum of 1808 to make up deficiencies in the actual realizations from the assignments under the Treaty of 1805. (The original assignment of Rs. 74,500 Sicca Rupees is now equivalent to Rs. 75,907. But of this sum Rs. 250 is paid by the British Government to certain other parties under the terms of a Sanad granted by the Gaekwar in 1784.)
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## APPENDIX III—(contd.).

## SCHEDULE B.

Contributions originally paid to another State, but subsequently acquired by the British Government :—

(7) by assignment from the original recipient.

Serial number in Appendix IV.	Name of State.	Amount. Rs.	Remarks.
<i>Rajputana Agency.</i>			
132.	Kotah	.. 94,218	Present value of assignments by Gwalior under Treaty of 1844 in respect of Kotah and certain districts named Kotris dependent on Kotah—see Chapter IV, para. 143 of our Report.
133.	„	.. 9,252	
152.	Jodhpur	.. (1,08,000) 98,000	Present value of recovery from Jodhpur under assignment in Treaty of 1844. The amount assigned from Jodhpur was Rs. 1,08,000, but in consideration of the cession by Jodhpur to the British Government of the district and fort of Umarkot the payment has been reduced by Rs. 10,000.
136.	Bundi	.. 80,000	Scindia assigned to the British Government in 1817 towards maintenance of its contingent his two-thirds share of Keshorai Patan, at one time part of Bundi territory, the other one-third being held by Indore. The cession was renewed in 1844. It was agreed in 1847 with the consent of the Gwalior Durbar that the district should be made over to Bundi in perpetuity on a payment to the British Government of Rs. 80,000 to be credited to Gwalior. In 1860 the sovereignty of the district was ceded by Scindia to the British Government who in 1924 conveyed the sovereignty to Bundi while maintaining the annual payment.



## APPENDIX III—(contd.).

## SCHEDULE B.

Contributions originally paid to another State, but subsequently acquired by the British Government :—

(7) by assignment from the original recipient.

<i>Serial number in Appendix IV.</i>	<i>Name of State.</i>	<i>Amount. Rs.</i>	<i>Remarks.</i>
<i>Central India Agency.</i>			
<i>(B) Cessions by Gwalior—(contd.)</i>			
88.	Ratlam ..	42,000	These tributes, of which the amounts were fixed in 1819 by the mediation of Sir J. Malcolm, were assigned by Scindia to the British Government in 1821, and again in the Treaties of 1844 and 1860, in liquidation of debts for the maintenance of the Gwalior contingent subsequently replaced by the British subsidiary force.
90.	Sailana ..	21,000	
15.	Khilchipur ..	11,134	The tribute, paid since 1793, was assigned by Scindia to the British Government in 1844 for the maintenance of the Gwalior contingent. It is not specifically mentioned in the schedule of assignments attached to the treaty of 1860 but appears to have been credited at the time through the payment made by the farmer of Ratangarh pargana, though not to have been retroceded to Gwalior together with that pargana as a result of the exchanges of 1860.
117.	Amjhera .. (Gwalior).	34,019	Tribute originally paid by the Amjhera State to Dhar but later to Gwalior, with whom an agreement fixing the amount was negotiated by Sir J. Malcolm in 1820. Ceded for payment of the Gwalior contingent in 1844, it continued to be paid to the British Government, but by Gwalior direct, the State of Amjhera having been confiscated and incorporated in Gwalior as a result of rebellion in 1857.
<i>Bombay States.</i>			
657.	Lunawada ..	9,230	Tributes to Scindia fixed in 1812 by the mediation of the British Government and apparently ceded by Scindia under the Treaties of 1844 and 1860.
676.	Sant ..	5,385	
(These tributes are not specified in the Schedule attached to the Treaty of 1860.)			

## APPENDIX III—(contd.).

## SCHEDULE B.

Contributions originally paid to another State, but subsequently acquired by the British Government :—

(7) by assignment from the original recipient.

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<i>Serial number in Appendix IV.</i>	<i>Name of State.</i>	<i>Amount. Rs.</i>	<i>Remarks.</i>
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(C) *Cessions by Indore.*

Under the Mandesaur Treaty of 1818, article 4, Holkar ceded to the British Government "all claims of tribute and revenues of every description which he has or may have had upon the Rajput Princes, such as the Rajahs of Oodeypor, Jeypore, Jaudhpor, Kotah, Bhondie, Karawlie, etc." Some of the agreements made at this time by the British Government with the Rajputana States provide for payment of contributions. But these contributions are in the majority of cases entirely distinct from any previous levy made by Indore and are stated to be for purposes of mutual defence. It has therefore seemed more appropriate to show them in Class (1) of this Appendix (*q.v.*).

*Rajputana Agency.*

147.      Partabgarh      ..      (36,500)

An exception is, the contribution of Partabgarh (Rs. 36,350), the equivalent of 72,700 Salim Shahi Rupees previously paid to Holkar, which the Raja engaged by Treaties of 1804 and 1818 to pay to the British Government. As Partabgarh has not been included in the list of tributary States in article 4 of the Mandesaur Treaty of 1818, Holkar endeavoured to assert his claims to this tribute by an expeditionary force, and the British Government arranged that in return for transfer of his rights over Partabgarh he should receive the amount of the tribute. This at the time of settlement was convertible at Rs. 57,874-3-2 and is therefore paid to Indore at that rate, although only Rs. 36,350 is recovered from Partabgarh. The payment thus ranks rather as an inter-State tribute.

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## APPENDIX III—(contd.).

## SCHEDULE B.

Contributions originally paid to another State, but subsequently acquired by the British Government :—

(7) by assignment from the original recipient.

<i>Serial Number in Appendix IV.</i>	<i>Name of State.</i>	<i>Amount. Rs.</i>	<i>Remarks.</i>
<hr/>			
<i>Central India Agency.</i>			(C) <i>Cessions by Indore—continued.</i>
30.	Indore	.. 660	Tribute (Tanka) originally paid by Indore to Chiefs of Sailana and Bakhatgarh and assigned by them to British Government. (Details as to date and circumstance of cession not traceable).
<i>Rajputana Agency.</i>			(D) <i>Cessions by Dhar.</i>
143.	Banswara	.. 17,500	Tributes found to be paid to Dhar when in 1818 this State was taken under the protection of the British Government on the conquest of Malwa. Dhar agreed to cede the first two tributes to the British Government in return for the recovery by British assistance of territories which it had lost. The tribute from Ali Rajpur was fixed by mediation of the British Government as commutation for customs duties previously collected by Dhar in that State. It was ceded to the British Government by Dhar in 1821, together with the Pargana of Bairsia (now part of Bhopal), in return for an annual cash payment of Rs. 1,10,000. This payment was discontinued after the Mutiny except the amount of the tribute from Ali Rajpur, which is still collected by the British Government and remitted to the Dhar Darbar and is therefore rather in the nature of an inter-State Tribute.
144.	Dungarpur	.. 17,500	
<i>Central India Agency.</i>			
100.	Ali Rajpur	.. (8,475)	

## APPENDIX IV.

Summarised Statement of Cash Contributions from Indian States\* to British Government (with Inter-State Contributions) and of the effect of Committee's recommendations in Chapter III for Immediate Remission.

Serial No. of Contribution.	Name of Contributing State.	Inter-State Contributions. (The figures of these contributions (other than those in column 4 (B) ) having been obtained from a variety of sources, their completeness and accuracy are doubtful.)					Cash Contributions to British Government.		Effect of Committee's Recommendations for immediate relief, or other special treatment.		
		3	4		5	6		7	8	9	10
			Amount of Contribution (A)  Retained by Creditor State.	Ceded by Creditor State to British Government (see Appx. III, Schedule B (7) ).		Total of Contributions received from other States (for details see Column 4 (A) ).	Amount of Contribution to British Government.				
Name of Creditor State.	—	—			—			—	—	Average Revenue of State for years 1928-30 (see Memo. randum on Indian States, 1930).	Percentage borne by Cash Contribution to Revenue in Column 8 in Column 9
1	BARODA .. CENTRAL INDIA STATES. Baghelkhand Agency.	—	—	—	5,82,765	3,75,000	A (5)	2,49,00,000	1.5	See Chapter III, paras. 74-75.	
2	Bhaisaunda ..	Pahra ..	111	—	1,115	—	—	20,000	—	—	
3	Pahra (Chaubé) ..	Bhaisaunda ..	59	—	392	—	—	19,000	—	—	
4	" ..	Tarain ..	85	—	—	—	—	—	—	—	
5	Paldeo ..	—	—	—	81	117	B (6)	50,000	.5	—	









## APPENDIX IV—(contd.).

Serial No. of Con- trib- ution.	1	2	3	4		5	Cash Contributions to British Government.		10		
				Amount of Contribution.			6	7			
				(A)	(B)						
		Name of Contributing State.	Name of Creditor State.	Retained by Creditor State.	Ceded by Cre- ditor State to British Government (see Appx. III, Schedules B (7) ).	Total of Contributions received from other States (for details see Column 4(A).	Amount of Contribution to British Government.	Where classi- fied in Appx. III.	Average Revenue of State for years 1928-30 (see Memo- randum on Indian States, 1930).	Percentage borne by Cash Contribution in Column 6 to Revenue in Column 8.	Estimated Amount to be remitted immediately as representing excess over 5 per cent. of Revenue, or other special recommendation.
		CENTRAL INDIA STATES—(contd.).									
		Malwa Agency— (contd.).									
64		Dewas Junior— (contd.).	Dhabla-Dhir	16	—	—	—	—	—	—	—
65		" "	Dhabla- Ghosi	16	—	—	—	—	—	—	—
66		" "	Jawasia	1,433	—	—	—	—	—	—	—
67		" "	Kalaha	739	—	—	—	—	—	—	—
68		" "	Kayatha	724	—	—	—	—	—	—	—
69		" "	Ladawad	12	—	—	—	—	—	—	—
70		" "	Mandawal	69	—	—	—	—	—	—	—







106	Jhabua ..	..	—	—	—	1,271	A (5)	4,40,000	0-3	See Chapter III, para. 73
107	" ..	..	Indore	9,039	—	—	—	—	—	—
108	Kachhi-Baroda ..	..	Unknown	8,016	—	—	—	66,000	—	—
109	Mota-Barkhera ..	..	Unknown	3,832	—	—	—	62,000	—	—
110	Multhan ..	..	Unknown	15,291	—	—	—	99,000	—	—
111	Rajgarh ..	..	Jhalawar	902	—	—	—	20,000	—	—
112	" ..	..	Gwalior	61,719	—	—	—	—	—	—
113	GWALIOR	..	Datia	210	—	1,00,313	—	2,10,00,000	—	—
114	" ..	..	Narsinggarh	960	—	—	—	—	—	—
115	" ..	..	Rajgarh	2,400	—	—	—	—	—	—
116	" ..	..	Raikam	230	—	—	—	—	—	—
117	Gwalior (Amjhara)	..	Gwalior	—	34,019	—	—	—	—	See Chapter III, paras. 82-83.
118	HYDERABAD ..	..	Gwalior	1,094	—	—	—	7,98,57,000	—	—
119	MADRAS STATES.	..	—	—	—	—	—	—	—	—
120	Cochin ..	..	—	—	—	1,00,000	A (1)	82,30,000	2-4	—
121	" ..	..	—	—	—	1,00,000	A (3)	—	—	—
122	Travancore ..	..	—	—	—	3,81,456	A (3)	2,48,08,000	3-2	—
123	" ..	..	—	—	—	4,01,655	A (3)	—	—	—
124	MYSORE	..	—	—	—	13,519	B (6)	—	—	—
125						24,50,000	A (1)	3,46,46,000	7-1	7,17,700

# APPENDIX IV—(contd.).

1	2	Inter-State Contributions. (The figures of these contributions (other than those in column 4 (B) ) having been obtained from a variety of sources, their completeness and accuracy are doubtful.)				Cash contributions to British Government.		Effect of Committee's Recommendations for immediate relief, or other special treatment.		
		3	4		5	6	7	8	8	10
Serial No. of Contribution.	Name of Contributing State.	Name of Creditor State.	Amount of Contribution.		Total of Contributions received from other States (for details see Column 4 (A) ).	Amount of Contribution to British Government.	Where classified in Appx. III.	Average Revenue of State for years 1928-30 (see Memorandum on Indian States, 1930).	Percentage Contribution to Revenue in Column 8.	Estimated Amount to be remitted immediately as representing excess over 5 per cent. of Revenue, or other special recommendation.
			(A)	(B)						
			Retained by Creditor State.	Ceded by Creditor State to British Government (see Appx. III, Schedule B (7) ).						
	PUNJAB STATES AGENCY.									
125	Bilaspur (Kahlur) ..	—	—	—	—	8,000	A (4)	3,00,000	2.7	—
126	Chamba ..	—	—	—	—	2,307	A (4)	8,37,000	0.3	—
127	Kapurthala ..	—	—	—	—	Nil.	A (4)	37,00,000	—	See Chapter III, para. 86.
128	Mandi ..	—	—	—	—	(1,31,000) 1,00,000	A (4)	15,39,000	6.5	23,050.
129	Suket ..	—	—	—	—	11,000	A (4)	2,25,000	4.9	—

RAJPUTANA  
STATES.

*Eastern Rajputana  
States Agency.*

130	Kotah	..	..	—	—	—	1,31,250	A (1)	50,88,000	2·6	—	See Chapter III, para. 73.
131	"	..	..	—	—	—	2,00,000	A (5)	—	—	—	See Chapter III, paras. 82-83.
132	"	..	..	Gwalior	..	94,218	—	—	—	—	—	See Chapter III, paras. 82-83.
133	"	..	..	"	..	9,262	—	—	—	—	—	See Chapter III, paras. 82-83.
134	"	..	..	Jaipur	..	14,398	—	—	—	—	—	—

*Haraoli and Tonk Agency.*

135	Bundi	..	—	—	—	40,000	A (1)	13,20,000	3·0	See Chapter III, paras. 82-83.
136	"	..	Gwalior	..	—	80,000	—	—	—	—
137	Jhalawar..	..	—	—	—	—	30,000	7,89,000	3·8	—
138	Shahpura	..	—	—	—	—	10,000	5,28,000	1·9	—
139	"	..	Udaipur (Mewar)	..	3,000	—	—	—	—	—
140	Tonk	..	—	—	—	—	5,000	27,79,000	0·2	See Chapter III, para. 73.

*Jaipur Residency.*

141	Jaipur	..	—	—	14,398	4,00,000	A (1)	1,30,00,000	3·1
142	Lawa	..	—	—	—	225	A (4)	50,000	0·5

## APPENDIX IV—(contd.).

<i>Inter-State Contributions.</i> (The figures of these contributions (other than those in column 4 (B) ) having been obtained from a variety of sources, their completeness and accuracy are doubtful.)										
1	2	3	4		5	6	7	8	9	10
Serial No. of Contribution.	Name of Contributing State.	Name of Creditor State.	Amount of Contribution.		Total of Contributions received from other States (for details see Column 4 (A)).	Amount of Contribution to British Government.	Where classified in Appx. III.	Average Revenue of State for years 1928-30 (see Memorandum on Indian States, 1930).	Percentage borne by Cash Contribution in Column 6 to Revenue in Column 8.	Estimated Amount to be remitted as representing excess over 5 per cent. of Revenue, or other special recommendation.
			Retained by Creditor State.	Ceded by Creditor State to British Government (see Appx. III, Schedule B (7) ).						
	RAJPUTANA STATES—(contd.).									
	Southern Rajputana States Agency.									
143	Banawara ..	Dhar ..	—	17,500	550	—	—	6,96,000	—	See Chapter III, paras. 82-83.
144	Dungarpur ..	" ..	—	17,500	—	—	—	6,61,000	—	See Chapter III, paras. 82-83.
145	Kushalgarh ..	Banswara ..	550	—	—	—	—	15,900	—	—
146	" ..	Rathlam ..	612	—	—	—	—	—	—	—
147	Partabgarh ..	Indore ..	36,500 (57,87'4)	—	—	—	—	5,85,000	—	See Chapter III, paras. 82-83.





## APPENDIX IV—(contd.).

1	2	Inter-State Contributions. (The figures of these contributions (other than those in column 4 (B) ) having been obtained from a variety of sources, their completeness and accuracy are doubtful.)					Cash Contributions to British Government.		8	9	10
		3	4		5	6	7				
Serial No. of Contribution.	Name of Contributing State.	Name of Creditor State.	Amount of Contribution.		Total of Contributions received from other States (for details see Column 4 (A) ).	Amount of Contribution to British Government.	Where classified in Appx. III.	Average Revenue of State for years 1928-30 (see Memo. random on Indian States, 1930).	Percentage borne by Cash Contribution in Column 6 to Revenue in Column 8.	Estimated Amount to be remitted immediately as representing excess over 5 per cent. of Revenue, or other special recommendation.	
			(A)	(B)							
			Retained by Creditor State.	Ceded by Creditor State to British Government (see Appx. III, Schedule B (7) ).							
WESTERN INDIA STATES—(contd.).											
164	Ankevalia	Junagadh	226	—	—	—	—	—	—	—	
165	Amiwada	Baroda	22	—	—	—	—	300	—	—	
166	Begsara	"	2,554	—	—	—	—	2,20,000	—	—	
167	"	Junagadh	1,544	—	—	7,880	B (6)	3,51,000	2.3	—	
168	Bejana	—	—	—	—	58	B (6)	—	—	—	
169	"	—	—	—	—	76	B (6)	4,000	1.9	—	
170	Bamanbore	—	—	—	—	29,642	B (6)	8,60,000	3.4	—	
171	Bartwa	—	—	—	—	1,101	B (6)	62,000	1.8	—	
172	"	Unknown	2,346	—	—	—	—	—	—	—	
173	Bhadli	—	—	—	—	—	—	—	—	—	
174	"	Junagadh	256	—	—	—	—	—	—	—	
175	Bhadramali	Baroda	39	—	—	1,394	B (6)	350	9.3	644	
176	Bhadwa	—	—	—	—	—	—	15,000	—	—	
177	"	Junagadh	238	—	—	—	—	—	—	—	

178	Bhadvana	..	Junagadh	..	83	..	..	..	998	B (6)	6,000	16-6	698
179	"	..	..	..	..	..	..	..	..	..	..	..	..
180	Bhalala	..	..	..	..	..	..	..	474	B (6)	1,000	47-4	424
181	Bhalgam Bhaldoi	..	..	..	..	..	..	..	204	B (6)	7,000	2-9	..
182	"	..	Junagadh	..	58	..	..	..	..	..	..	..	..
183	"	..	Baroda	..	96	..	..	..	..	..	..	..	..
184	Bhaligunda	..	..	..	..	..	..	..	1,400	B (6)	10,000	14-0	900
185	"	..	Junagadh	..	105	..	..	..	..	..	5,000	..	..
186	Bhandaria	..	Baroda	..	307	..	..	..	..	..	..	..	..
187	"	..	Junagadh	..	15	..	..	..	..	..	..	..	..
188	Bharejda	..	..	..	..	..	..	..	94	B (6)	3,000	4-2	..
189	"	..	..	..	..	..	..	..	32	B (6)	..	..	..
190	Bhatnan	..	..	..	..	..	..	..	641	B (6)	2,000	32-0	541
191	"	..	Junagadh	..	60	..	..	..	..	..	..	..	..
192	Bhavnagar	..	..	..	..	..	..	..	52,000	A (4)	1,04,65,000	0-5	..
193	"	..	..	..	..	..	..	..	153	B (6)	..	..	..
194	"	..	Baroda	..	..	..	75,657	..	..	..	..	..	..
195	"	..	"	..	3,581	..	..	..	..	..	..	..	..
196	"	..	Junagadh	..	22,858	..	..	..	..	..	..	..	..
197	Bhimora	..	..	..	..	..	..	..	307	(6)	7,000	4-4	..
198	"	..	..	..	..	..	..	..	..	..	..	..	..
199	Bhoika	..	Junagadh	..	63	..	..	..	..	..	24,000	7-7	1,658
200	"	..	..	..	..	..	..	..	1,739	B (6)	..	..	..
201	"	..	..	..	..	..	..	..	99	B (6)	5,000	..	..
202	Bhojevadar	..	Junagadh	..	279	..	..	..	..	..	..	..	..
203	"	..	Baroda	..	411	..	..	..	..	..	1,000	..	..
204	Bodanones	..	Junagadh	..	139	..	..	..	..	..	..	..	..
205	"	..	Baroda	..	103	..	..	..	..	..	..	..	..
206	Bukoli	..	Junagadh	..	9	..	..	..	..	..	300	..	..
207	Chanchana	..	Baroda	..	58	..	..	..	..	..	3,000	10-6	168
208	Chamardi-Vachhani	..	..	..	765	..	..	..	318	B (6)	10,000	..	..
209	"	..	Junagadh	..	93	..	..	..	..	..	..	..	..
210	Charkha	..	Baroda	..	503	..	..	..	..	..	17,000	..	..

See Chapter III,  
paras. 82-83.

## 412

[illegible]

[illegible]

## APPENDIX IV—(contd.).

Effect of Committee's Recommendations for immediate relief, or other special treatment.											
Inter-State Contributions. (The figures of these contributions (other than those in column 4 (B) ) having been obtained from a variety of sources, their completeness and accuracy are doubtful.)						Cash Contributions to British Government.					
1	2	3	4		5.	6	7	8	9	10	
			Amount of Contribution.								
			(A)	(B)							
Serial No. of Contribution.	Name of Contributing State	Name of Creditor State.	Retained by Creditor State.	Ceded by Creditor State to British Government (see Appx. III, Schedule B (7) ).	Total of Contributions received from other States (for details see Column 4 (A) ).	Amount of Contribution to British Government.	Where classified in Appx. III.	Average Revenue of State for years 1928-30 (see Memorandum on Indian States, 1930).	Percentage borne by Cash Contribution in Column 6 to Revenue in Column 8.	Estimated Amount to be remitted immediately as representing excess over 5 per cent. of Revenue, or other special recommendation.	
WESTERN INDIA STATES—(contd.).											
259	Gadhula ..	Junagadh ..	28	—	—	—	—	—	—	—	
260	Gandhol ..	Baroda ..	103	—	—	—	—	2,000	—	—	
261	" ..	Junagadh ..	8	—	—	—	—	—	—	—	
262	Garmali (Moti)	Baroda ..	196	—	—	—	—	3,000	—	—	
263	" ..	Junagadh ..	24	—	—	—	—	—	—	—	
264	Garmali (Nani)	Baroda ..	194	—	—	—	—	1,000	—	—	
265	Gavridad ..	—	—	—	—	1,011	B (6)	25,000	4.0	—	
266	" ..	Junagadh ..	610	—	—	—	—	—	—	—	
267	Gedi ..	—	—	—	—	1,200	B (6)	4,000	30.0	1,000	
268	" ..	Junagadh ..	139	—	—	—	—	—	—	—	
269	Gondal ..	—	—	—	—	49,096	B (6)	50,00,000	1.0	—	
270	" ..	Baroda ..	61,017	—	—	—	—	—	—	—	
271	" ..	Junagadh ..	608	—	—	—	—	—	—	—	
272	Gundiala ..	—	—	—	—	1,408	B (6)	16,000	8.8	608	

*Inter-State Contributions.*

(The figures of these contributions (other than those in column 4 (B)) having been obtained from a variety of sources, their completeness and accuracy are doubtful.)



273	Halaria ..	..	Baroda	102	—	—	—	—	—	10,000	—	—
274	" ..	..	Junagadh	77	—	—	—	—	—	—	—	—
275	Lavej ..	..	Baroda	282	—	—	—	—	—	5,000	—	—
276	" ..	..	Junagadh	8	—	—	—	—	—	—	—	—
277	Indirmana ..	..	Baroda	36	—	—	—	—	—	400	—	—
278	Itaria ..	..	—	—	—	—	—	—	—	20,000	1-3	—
279	" ..	..	Junagadh	83	—	—	—	—	—	—	—	—
280	Jakhan ..	..	—	—	—	—	—	—	—	1,000	24-2	192
281	" ..	..	Junagadh	46	—	—	—	—	—	—	—	—
282	Jalia-Devani ..	..	Baroda	1,181	—	—	—	—	—	30,000	—	—
283	" ..	..	Junagadh	370	—	—	—	—	—	—	—	—
284	Jalia-Kayaji ..	..	Baroda	128	—	—	—	—	—	2,000	—	—
285	" ..	..	Junagadh	8	—	—	—	—	—	—	—	—
286	Jalia-Manaji ..	..	Baroda	31	—	—	—	—	—	2,000	—	—
287	Jasdan ..	..	—	—	—	—	—	—	—	4,92,000	1-6	—
288	" ..	..	Baroda	394	—	—	—	—	—	—	—	—
289	" ..	..	Junagadh	2,572	—	—	—	—	—	—	—	—
290	Jetpur ..	..	—	—	—	—	—	—	—	10,47,000	4-8	—
291	" ..	..	Baroda	1,190	—	—	—	—	—	—	—	—
292	" ..	..	Junagadh	3,796	—	—	—	—	—	—	—	—
293	Jhamar ..	..	—	—	—	—	—	—	—	3,000	15-5	314
294	Jhamka (Velani)	..	Baroda	185	—	—	—	—	—	4,000	—	—
295	Jhampodad ..	..	—	—	—	—	—	—	—	3,000	4-6	—
296	Jhinjhuwada ..	..	—	—	—	—	—	—	—	1,02,000	10-9	—
297	" ..	..	Unknown	654	—	—	—	—	—	—	—	—
298	Junagadh ..	..	—	—	—	—	—	—	—	83,63,000	0-3	—
299	" ..	..	Baroda	37,210	—	—	—	—	—	11,000	—	—
300	Junapadar ..	..	Baroda	42	—	—	—	—	—	700	—	—
301	Kakar ..	..	Baroda	46	—	—	—	—	—	10,000	3-8	—
302	Kamadhia ..	..	—	—	—	—	—	—	—	10,000	7-8	—
303	Kamalpur ..	..	—	—	—	—	—	—	—	1,400	—	—
304	Kamboi ..	..	Baroda	167	—	—	—	—	—	—	—	—
305	Kaner ..	..	Baroda	195	—	—	—	—	—	2,000	—	—
306	Kanjarda ..	..	Baroda	128	—	—	—	—	—	3,000	—	—

# APPENDIX

<i>Inter-State Contributions.</i> (The figures of these contributions (other than those in column 4 (B) ) having been obtained from a variety of sources, their completeness and accuracy are doubtful.)					
1	2	3	4		5
Serial No. of Con- trib- ution.	Name of Contributing State.	Name of Creditor State.	Amount of Contribution.		Total of Contribution received from other States (for details see Column 4 (A) ).
			(A)	(B)	
			Retained by Creditor State.	Ceded by Creditor State to British Government (see appx. III, Sche- dule B (7)	
	WESTERN INDIA STATES—(contd.).				
307	Kankasiali ..	—	—	—	—
308	„ ..	Junagadh ..	27	—	—
309	Kanpur-Ishvaria ..	—	—	—	—
310	„ „ ..	Junagadh ..	117	—	—
311	Kantharia ..	—	—	—	—
312	„ ..	—	—	—	—
313	„ ..	Junagadh ..	208	—	—
314	Kariana ..	—	—	—	—
315	„ ..	Junagadh ..	307	—	—
316	Karmad ..	—	—	—	—
317	„ ..	—	—	—	—
318	„ ..	Junagadh ..	32	—	—
319	Karol ..	—	—	—	—
320	„ ..	Junagadh ..	93	—	—

321	Katodia (Vachhani)	Baroda	..	193	—	—
322	" "	Junagadh	..	28	—	—
323	Kathrota ..	Baroda	..	52	—	—
324	Kesaria ..	—	—	—	—	—
325	Khambhala ..	—	—	—	—	—
326	" ..	Junagadh	..	118	—	—
327	Khambhlav ..	—	—	—	—	—
328	" ..	Junagadh	..	139	—	—
329	Khandia ..	—	—	—	—	—
330	" ..	—	—	—	—	—
331	" ..	Junagadh	..	81	—	—
332	Kherali ..	—	—	—	—	—
333	Khijadia-Najani ..	Baroda	..	52	—	—
334	Khijadia-Dosaji ..	Baroda	..	380	—	—
335	" "	Junagadh	..	47	—	—
336	Khimana ..	Baroda	..	45	—	—
337	Khirasra ..	—	—	—	—	—
338	" ..	Junagadh	..	350	—	—
339	Kotda-Nayani ..	Baroda	..	542	—	—
340	" ..	Junagadh	..	145	—	—
341	Kotda-Pitha ..	—	—	—	—	—
342	" "	Junagadh	..	728	—	—
343	Kotda-Sangani ..	—	—	—	—	—
344	" "	Junagadh	..	1,427	—	—
345	Kotharia ..	—	—	—	—	—
346	" ..	Junagadh	..	298	—	—
347	Lakhapadar ..	Baroda	..	154	—	—
348	" ..	Junagadh	..	24	—	—
349	Lakhtar ..	—	—	—	—	—
350	" ..	—	—	—	—	—
351	" ..	Junagadh	..	464	—	—
352	Laliad ..	—	—	—	—	—
353	Lathi ..	Baroda	..	711	—	—
354	" ..	Junagadh	..	1,146	—	—

7—(contd.).

Cash Contributions to British Government.		Effect of Committee's Recommendations for immediate relief, or other special treatment.		
6	7	8	9	10
Amount of Contribution to British Government.	Where classified in Appx. III.	Average Revenue of State for years 1928-30 (see Memorandum on Indian States, 1930).	Percentage borne by Cash Contribution in Column 6 to Revenue in Column 8.	Estimated Amount to be remitted immediately as representing excess over 5 per cent. of Revenue, or other special recommendation.
84	B (6)	2,000	4.2	—
—	—	—	—	—
230	B (6)	14,000	1.6	—
—	—	—	—	—
1,491	B (6)	12,000	13.2	980
89	B (6)	—	—	—
—	—	—	—	—
850	B (6)	40,000	2.1	—
—	—	—	—	—
140	B (6)	6,000	3.3	—
59	B (6)	—	—	—
—	—	—	—	—
703	B (6)	12,000	5.9	103
—	—	—	—	—

—	—	2,000	—	—
—	—	—	—	—
—	—	1,000	—	—
278	B (6)	1,000	27·8	228
406	B (6)	12,000	3·4	—
—	—	—	—	—
730	B (6)	1,000	73·0	680
—	—	—	—	—
806	B (6)	5,000	16·4	569
13	B (6)	—	—	—
—	—	—	—	—
678	B (6)	17,000	4·0	—
—	—	2,000	—	—
—	—	2,400	—	—
—	—	—	—	—
—	—	800	—	—
2,366	B (6)	60,000	3·9	—
—	—	—	—	—
—	—	9,000	—	—
—	—	—	—	—
4,850	B (6)	80,000	6·1	850
—	—	—	—	—
10,189	B (6)	1,54,000	6·6	2,489
—	—	—	—	—
948	B (6)	40,000	2·4	—
—	—	—	—	—
—	—	2,000	—	—
—	—	—	—	—
6,763	B (6)	3,55,000	1·9	—
124	B (6)	—	—	—
—	—	—	—	—
362	B (6)	6,000	6·0	62
—	—	2,12,000	—	—
—	—	—	—	—





415	Rajkot ..	..	—	Junagadh	—	—	18,991	(B(6)	10,00,000	1.9	—
416	"	..	2,330	Baroda	..	—	—	—	3,000	—	—
417	Rajpara ..	..	256	Junagadh	..	—	—	—	—	—	—
418	"	..	18	Junagadh	..	—	2,412	B(6)	65,000	3.7	—
419	Rajpur ..	..	—	Junagadh	..	—	—	—	—	—	—
420	"	..	186	Junagadh	..	—	2,922	B(6)	21,000	13.9	1,872
421	Rajapura (Halar)	..	—	Junagadh	..	—	—	—	—	—	—
422	"	..	241	Baroda	..	—	—	—	3,000	—	—
423	Ramanka	..	574	Junagadh	..	—	—	—	—	—	—
424	"	..	98	Baroda	..	—	75	B(6)	1,000	7.5	25
425	Ramparda	..	—	Baroda	..	—	—	—	2,200	—	—
426	Ranekpur	..	128	Baroda	..	—	—	—	1,000	—	—
427	Raner ..	..	329	Baroda	..	—	—	—	15,000	—	—
428	Ranigam	..	714	Baroda	..	—	—	—	6,000	—	—
429	Ratanpur-Dhamanka	..	750	Baroda	..	—	—	—	—	—	—
430	"	..	153	Junagadh	..	—	—	—	3,000	—	—
431	Rohisala	..	103	Baroda	..	—	—	—	—	—	—
432	"	..	8	Junagadh	..	—	519	B(6)	12,000	4.3	—
433	Sahuka ..	..	—	—	..	—	—	—	8,000	—	—
434	"	..	65	Junagadh	..	—	—	—	—	—	—
435	Samadhiala	..	510	Baroda	..	—	—	—	—	—	—
436	"	..	8	Junagadh	..	—	—	—	6,000	—	—
437	Samadhiala-	..	1,801	Baroda	..	—	—	—	—	—	—
438	Chhabhadia ..	..	—	—	..	—	—	—	—	—	—
439	"	..	389	Junagadh	..	—	—	—	3,700	—	—
440	Samau ..	..	298	Baroda	..	—	959	B(6)	10,000	9.6	459
441	Samla ..	..	—	—	..	—	—	—	—	—	—
442	"	..	104	Junagadh	..	—	—	—	3,000	—	—
443	Sanala ..	..	307	Baroda	..	—	—	—	—	—	—
444	"	..	15	Junagadh	..	—	—	—	—	—	—
445	Sanosra ..	..	—	—	..	—	186	B(6)	6,000	3.1	—
446	"	..	51	Junagadh	..	—	—	—	—	—	—
447	Sardarpur	..	35	Baroda	..	—	—	—	400	—	—
447	Sata-no-ness	..	103	Baroda	..	—	—	—	1,000	—	—

## APPENDIX IV—(contd.).

1		2		3		4		5		6		7		8		9		10	

[illegible]

## APPENDIX IV—(contd.).

Inter-State Contributions. (The figures of these contributions (other than those in column 4 (B) having been obtained from a variety of sources, their completeness and accuracy are doubtful.)			Cash Contributions to British Government.			Effect of Committee's Recommendations for immediate relief, or other special treatment.				
1	2	3	4		5	6	7	8	9	10
Serial No. of Contribution.	Name of Contributing State.	Name of Creditor State.	Amount of Contribution.		Total of Contributions received from other States (for details see Column 4 (A)).	Amount of Contribution to British Government.	Where classified in Appx. III.	Average Revenue of State for years 1928-30 (see Memorandum on Indian States, 1930).	Percentage borne by Cash Contribution in Column 6 to Revenue in Column 8.	Estimated Amount to be remitted as representing excess over 5 per cent. of Revenue, or other special recommendation.
			(A) Retained by Creditor State.	(B) Ceded by Creditor State to British Government (see Appx. III, Schedule B (7)).						
WESTERN INDIA STATES—(concld).										
494	Vangadhra ..	Baroda ..	79	—	—	—	—	2,000	—	—
495	" ..	Junagadh ..	25	—	—	17,422	B (6)	7,43,000	2.3	—
496	Vankaner ..	—	—	—	—	—	—	—	—	—
497	" ..	Junagadh ..	1,457	—	—	1,953	B (6)	1,00,000	2.0	—
498	Vanod ..	—	—	—	—	—	—	—	—	—
499	" ..	Radhanpur ..	454	—	—	766	B (6)	51,000	1.5	—
500	Vasavad ..	—	—	—	—	—	—	10,000	—	—
501	Vavdi-Dharvala ..	Baroda ..	1,296	—	—	—	—	—	—	—
502	" ..	Junagadh ..	234	—	—	—	—	—	—	—
503	Vavdi-Vachhani ..	Baroda ..	298	—	—	—	—	3,000	—	—
504	" ..	Junagadh ..	56	—	—	—	—	—	—	—
505	Vekaria ..	Baroda ..	55	—	—	—	—	4,000	—	—
506	Vejanonesh ..	Baroda ..	31	—	—	—	—	500	—	—
507	Virpur ..	—	—	—	—	3,418	B (6)	1,38,000	2.5	—





## APPENDIX IV—(contd.).

			Inter-State Contributions. (The figures of these contributions (other than those in column 4 (B) ) having been obtained from a variety of sources, their completeness and accuracy are doubtful.)			Cash Contributions to British Government.		Effect of Committee's Recommendations for immediate relief, or other special treatment.		
1	2	3	4		5	6	7	8	9	10
Serial No. of Contribution.	Name of Contributing State.	Name of Creditor State.	Amount of Contribution.		Total of Contributions received from other States (for details see Column 4 (A)).	Amount of Contribution to British Government.	Where classified in Appx. III.	Average Revenue of State for years 1928-30 (see Memorandum on Indian States, 1930).	Percentage borne by Cash Contribution in Column 6 to Revenue in Column 8.	Estimated Amount to be remitted immediately as representing excess over 5 per cent. of Revenue, or other special recommendation.
			Retained by Creditor State.	Ceded by Creditor State to British Government (see Appx. III, Schedule B (7)).						
BIHAR & ORISSA STATES—(contd.).										
526	Hindol ..	—	—	—	—	551	B (6)	1,22,000	0.5	—
527	Kalahandi (Karond)	—	—	—	—	16,000	B (6)	6,32,000	2.5	—
528	Keonjhar	—	—	—	—	1,710	B (6)	9,42,000	0.2	—
529	Khandpara	—	—	—	—	4,212	B (6)	1,35,000	3.1	—
530	Mayurbhanj	—	—	—	—	1,068	B (6)	27,37,000	0.04	—
531	Narsingpur	—	—	—	—	1,456	B (6)	1,16,000	1.3	—
532	Nayagarh	—	—	—	—	5,525	B (6)	3,54,000	1.6	—
533	Nilgiri ..	—	—	—	—	3,900	B (6)	1,93,000	2.0	—
534	Pal Lahara	—	—	—	—	267	B (6)	80,000	0.3	—
535	Patna ..	—	—	—	—	13,500	B (6)	8,55,000	1.6	—
536	Ranpur ..	—	—	—	—	1,401	B (6)	66,000	2.1	—
537	Rairakhol	—	—	—	—	2,000	B (6)	87,000	2.3	—

Estimated Amount  
to be remitted  
immediately as  
representing excess  
over 5 per cent. of  
Revenue, or other  
special  
recommendation.

Percentage  
borne by Cash  
Contribution  
in Column 6  
to Revenue  
in  
Column 8,  
1930).

Average  
Revenue of  
State for  
years 1928-30  
(see Memo-  
randum on  
Indian States,  
1930).

Where  
classi-  
fied in  
Appx.  
III.

538	Sonpur ..	..	—	—	—	12,000	B (6)	3,75,000	3.2	—
539	Talcher ..	..	—	—	—	1,040	B (6)	2,78,000	0.4	—
540	Tigiria ..	..	—	—	—	882	B (6)	32,000	2.8	—
<b>BOMBAY STATES.</b>										
<i>Bijsapur Agency.</i>										
541	Jath ..	..	—	—	—	11,247	B (6)	3,31,000	3.4	—
542	" ..	..	<i>Aundh</i>	—	958	—	—	—	—	—
<i>Kaira Agency.</i>										
543	Cambay ..	..	—	—	—	21,924	B (6)	9,95,000	2.2	—
<i>Kolhapur and Southern Mahratta Country Agency.</i>										
544	Jamkhandi ..	..	—	—	—	20,841	B (6)	9,88,000	2.1	—
545	Kholepur ..	..	—	—	—	1,44,000 (about)	A (5)	1,39,29,000	1.0	—
546	Kurundwad (Senior and Junior).	..	—	—	—	9,619	B (6)	6,48,000	1.5	—
547	Miraj, Senior	..	—	—	—	12,558	B (6)	4,56,000	2.8	—
548	Miraj, Junior	..	—	—	—	6,412	B (6)	3,61,000	1.8	—
549	Mudhol ..	..	—	—	—	2,672	B (6)	5,11,000	.5	—
550	Randurg ..	..	—	—	—	3,089	B (6)	3,41,000	.9	—
551	Sangli ..	..	—	—	—	24,575	B (6)	13,69,000	1.7	—

See Chapter III,  
paras. 73 & 88.



564	Danta	..	Idar	514	—	—	—	10,000	—	—
565	Dedrota	..	Baroda	699	—	—	—	—	—	—
566	"	..	Idar	74	—	—	—	4,000	—	—
567	Deloli	..	Baroda	256	—	—	—	7,000	—	—
568	Derol	..	Baroda	513	—	—	—	—	—	—
569	"	..	Idar	46	—	—	—	—	—	—
570	Gabat	..	Idar	43	—	—	—	10,000	—	—
571	Ghodasar	..	Baroda	2,693	—	—	—	51,000	—	—
572	Gokulpura	..	Baroda	42	—	—	—	Unknown	—	—
573	Hadol	..	Baroda	113	—	—	—	3,000	—	—
574	"	..	Idar	41	—	—	—	11,000	—	—
575	Hapa	..	Baroda	1,025	—	—	—	—	—	—
576	"	..	Idar	219	—	—	—	14,77,000	—	—
577	Idar	..	Baroda	20,793	—	—	8,868	5,000	—	—
578	Iipura	..	Baroda	238	—	—	—	46,000	—	—
579	Ilol	..	Baroda	1,863	—	—	—	—	—	—
580	"	..	Idar	445	—	—	—	Unknown	—	—
581	Jher-Nirmali	..	Baroda	865	—	—	—	12,000	—	—
582	Kadoli	..	Baroda	513	—	—	—	—	—	—
583	"	..	Idar	93	—	—	—	3,000	—	—
584	Kasalpura	..	Baroda	48	—	—	—	51,000	—	—
585	Katosan	..	Baroda	4,893	—	—	—	37,000	—	—
586	Khadal	..	Baroda	1,597	—	—	—	14,000	—	—
587	Khedawada	..	Baroda	303	—	—	—	—	—	—
588	"	..	Idar	93	—	—	—	16,000	—	—
589	Magodi	..	Idar	93	—	—	—	18,000	—	—
590	Maguna	..	Baroda	892	—	—	—	59,000	—	0.7
591	Mahpur	..	Baroda	—	—	—	430	—	—	—
592	"	..	Baroda	280	—	—	—	—	—	—
593	"	..	Idar	306	—	—	—	1,75,000	—	—
594	Mansa	..	Baroda	11,751	—	—	—	2,000	—	—
595	Mehmadpura	..	Baroda	174	—	—	—	64,000	—	—
596	Mohanpur	..	Baroda	4,750	—	—	—	—	—	—
597	"	..	Idar	2,252	—	—	—	—	—	—



## APPENDIX IV—(contd.).

APPENDIX IV—(Contd.)

Serial No. of Contribution.	Name of Contributing State.	Name of Creditor State.	4		5	Cash Contributions to British Government.		7	Effect of Committee's Recommendations for immediate relief, or other special treatment.		
			Amount of Contribution. (A)	Ceded by Creditor State to British Government (see Appx. III, Schedule B (7)).		6	7		8	9	10
BOMBAY STATES											
—(contd.).											
Mahi Kantha Agency											
—(contd.).											
598	Mulaj-na-pura	Baroda	25	—	—	—	Unknown	—	—	—	
599	Palaj	Baroda	399	—	—	—	11,000	—	—	—	
600	Pethapur	Baroda	8,910	—	—	—	36,000	—	—	—	
601	Prempur	Baroda	187	—	—	—	12,000	—	—	—	
602	"	Idar	46	—	—	—	—	—	—	—	
603	Punadra	Baroda	288	—	—	—	27,000	—	—	—	
604	Ramas	Baroda	122	—	—	—	10,000	—	—	—	
605	Rampura	Baroda	156	—	—	—	4,000	—	—	—	
606	Ranasan	—	—	—	—	—	32,000	—	—	—	
607	"	Baroda	373	—	—	3	—	—	—	—	
608	"	Idar	949	—	—	—	—	—	—	—	

609	Rupal ..	..	Baroda	1,165	—	—	—	—	14,000	—	—
610	" ..	..	Idar	362	—	—	—	—	—	—	—
611	Santhal ..	..	Baroda	1,773	—	—	—	—	Unknown	—	—
612	Sathamba ..	..	Baroda	308	—	—	—	—	48,000	—	—
613	" ..	..	Balasinar	561	—	—	—	—	—	—	—
614	" ..	..	Lunawada	127	—	—	—	—	—	—	—
615	Satlasana ..	..	Baroda	2,794	—	—	—	—	16,000	—	—
616	Sudasana ..	..	Baroda	1,036	—	—	—	—	34,000	—	—
617	" ..	..	Idar	361	—	—	—	—	—	—	—
618	Tajpuri ..	..	Baroda	699	—	—	—	—	6,000	—	—
619	" ..	..	Idar	186	—	—	—	—	—	—	—
620	Tejapura ..	..	Baroda	308	—	—	—	—	3,000	—	—
621	Timba ..	..	Idar	50	—	—	—	—	5,000	—	—
622	Vaktapur ..	..	Baroda	1,118	—	—	—	—	9,000	—	—
623	" ..	..	Idar	486	—	—	—	—	—	—	—
624	Valasna ..	..	Baroda	280	—	—	—	—	19,000	—	—
625	Varsoda ..	..	Baroda	1,583	—	—	—	—	36,000	—	—
626	Virroda ..	..	Baroda	681	—	—	—	—	4,000	—	—
627	Wasna ..	..	Baroda	3,109	—	—	—	—	25,000	—	—
<i>Poona Agency.</i>											
628	Bhor ..	..	—	—	—	—	4,687	B (6)	5,63,000	0.8	—
<i>Reva Kantha Agency.</i>											
629	Agar ..	..	Baroda	143	—	—	—	—	39,000	—	—
630	Alwa ..	..	Baroda	51	—	—	—	—	14,000	—	—
631	Amrapur ..	..	Baroda	155	—	—	—	—	800	—	—
632	Angadh ..	..	Baroda	1,344	—	—	—	—	12,000	—	—
633	Balasinar ..	..	Baroda	—	9,766	561	—	—	2,50,000	—	—

See Chapter III,  
paras. 82-83.





## APPENDIX IV—(contd.).

1	2	3			4		5	6		7	8	9	10
Serial No. of Contribution.	Name of Contributing State.	Name of Creditor State.	Amount of Contribution (B)		Total of Contributions received from other States (for details see Column 4 (A) ).	Cash Contributions to British Government.	Where classified in Appx. III.	Average Revenue of State for years 1928-30 (see Memorandum on Indian States, 1930).	Percentage borne by Cash Contribution in Column 6 to Revenue in Column 8.	Estimated Amount to be remitted immediately as representing excess over 5 per cent. of Revenue, or other special recommendation.			
			Retained by Creditor State.	Ceded by Creditor State to British Government (see Appx. III, Schedule B (7)).									
BOMBAY STATES													
—(contd.).													
Reva Kantha Agency													
675	Rund ..	Baroda ..	10,000	—	—	—	—	Unknown	—	—	See Chapter III, paras. 82-83.		
676	Sant ..	Gwalior ..	—	5,385	—	—	—	5,80,000	—	—	—		
677	Shanor ..	Baroda ..	1,214	—	—	—	—	30,000	—	—	—		
678	Sihora ..	Baroda ..	3,693	—	—	—	—	34,000	—	—	—		
679	Sindhia-pura ..	Baroda ..	44	—	—	—	—	6,000	—	—	—		
680	Uchad ..	Baroda ..	679	—	—	—	—	44,000	—	—	—		
681	Umetha ..	Baroda ..	3,846	—	—	—	—	72,000	—	—	—		
682	Vaigiria ..	Baroda ..	3,851	—	—	—	—	56,000	—	—	—		
683	Vakhtapur ..	Baroda ..	116	—	—	—	—	2,000	—	—	—		
684	Varnolmal ..	Baroda ..	65	—	—	—	—	1,000	—	—	—		



685	Varnoli Moti	..	Baroda	78	—	—	—	—	1,000	—	—
686	Varnoli Nani	..	Baroda	19	—	—	—	—	600	—	—
687	Vasan Sevada	..	Baroda	885	—	—	—	—	9,000	—	—
688	Vasan Virpur	..	Baroda	332	—	—	—	—	48,000	—	—
689	Virampura (Vadia)	..	Baroda	79	—	—	—	—	800	—	—
690	Vohora ..	..	Baroda	655	—	—	—	—	13,000	—	—
	<i>Satara Agency.</i>										
691	Aundh ..	..	—	—	—	958	—	—	4,68,000	—	—
692	Phaltan ..	..	—	—	—	—	—	9,600	3,80,000	2.5	—
	<i>Sholapur Agency.</i>										
693	Akalkot ..	..	—	—	—	—	—	14,592	7,33,000	2.0	—
	<i>Surat Agency.</i>										
694	Bansda ..	..	—	—	—	—	—	153	8,06,000	0.02	—
695	Dharampur	..	—	—	—	—	—	(7,351) 9,000	12,51,000	0.7	—
	CENTRAL PROVINCES STATES.										
696	Bastar ..	..	—	—	—	—	—	18,000	9,59,000	1.9	—
697	Changbhatkar	..	—	—	—	—	—	150	27,000	0.6	—
698	Chhuikhadan	..	—	—	—	—	—	12,000	1,23,000	9.8	5,900
699	Jashpur ..	..	—	—	—	—	—	2,000	3,61,000	0.6	—
700	Kawardha	..	—	—	—	—	—	30,000	3,92,003	7.7	10,400
701	Kharagarh	..	—	—	—	—	—	80,000	6,26,000	12.8	48,700
702	Korea ..	..	—	—	—	—	—	750	2,75,000	0.3	—

## APPENDIX IV—(contd.).

Inter-State Contributions. (The figures of these contributions (other than those in column 4 (B)) having been obtained from a variety of sources, their completeness and accuracy are doubtful.)													
1	2	3	4		5	6		7	8	9	10		
Serial No. of Contribution.	Name of Contributing State.	Name of Creditor State.	Amount of Contribution. (B)		Total of Contributions received from other States (for details see Column 4 (A)).	Amount of Contribution to British Government.	Where classified in Appx. III.	Average Revenue of State for years 1928-30 (see Memorandum on random in Indian States, 1930).	Percentage borne by Cash Contribution in Column 6 to Revenue in Column 8.	Estimated Amount to be remitted immediately as representing excess over 5 per cent. of Revenue, or other special recommendation.			
			Retained by Creditor State.	Ceded by Creditor State to British Government (see Appx. III, Schedule B (7)).									
CENTRAL PROVINCES													
STATES—(contd.).													
703	Nandgaon ..	—	—	—	—	80,000	B (6)	—	6,39,000	12.5	48,050		
704	Raigarh ..	—	—	—	—	5,500	B (6)	—	6,72,000	0.8	—		
705	Sakti ..	—	—	—	—	1,500	B (6)	—	1,26,000	1.2	—		
706	Sarangarh ..	—	—	—	—	4,500	B (6)	—	3,04,000	1.5	—		
707	Surguja ..	—	—	—	—	3,500	B (6)	—	5,65,000	0.6	—		
708	Udaipur ..	—	—	—	—	1,200	B (6)	—	2,27,000	0.5	—		
PUNJAB.													
Simla Hill States.													
709	Baghal ..	—	—	—	—	3,600	A (4)	—	1,04,000	3.5	—		
710	Balsan ..	—	—	—	—	1,080	A (4)	—	87,000	1.2	—		

11	Bashahr ..	..	—	—	—	—	—	3,945	A (4)	3,34,000	1.2	—
12	Bhaji ..	..	—	—	—	—	—	1,440	A (4)	72,000	2.0	—
13	Bija ..	..	—	—	—	—	—	124	A (4)	11,000	1.1	—
14	Dhami ..	..	—	—	—	—	—	720	A (4)	46,000	1.6	—
715	Jubbil ..	..	—	—	—	—	—	2,520	A (4)	6,75,000	0.4	—
716	Kumharsain ..	..	—	—	—	—	—	2,000	A (4)	1,10,000	1.8	—
717	Kunihar ..	..	—	—	—	—	—	180	A (4)	18,000	1.0	—
718	Kuthar ..	..	—	—	—	—	—	1,000	A (4)	38,000	2.6	—
719	Malog ..	..	—	—	—	—	—	1,440	A (4)	51,000	2.8	—
720	Mangal ..	..	—	—	—	—	—	72	A (4)	1,000	7.2	22
721	Nalagarh (Hindur) ..	..	—	—	—	—	—	5,000	A (4)	2,16,000	2.3	—
722	Tarooh ..	..	—	—	—	—	—	288	A (4)	1,30,000	0.2	—
UNITED PROVINCES STATES.												
723	Benares ..	..	—	—	—	—	—	1,90,000	A (4)	20,09,000	12.4	1,48,937
724	" ..	..	—	—	—	—	—	30,387	A (4)	—	—	See Chapter III, para. 71.
725	" ..	..	—	—	—	—	—	20,000	A (4)	—	—	"
Grand Totals								72,02,016				11,20,030

## APPENDIX V.

## DISTRIBUTION, NATURE AND VALUE OF ASCERTAINED RIGHTS OF STATES IN RESPECT OF SALT.

(Salt is at present taxed in India at the rate of Rs. 1/9 per maund (82 lbs.) but 5 annas, or 25 per cent., of this amount represents a surcharge recently imposed as an emergency measure. For purposes of calculating in cash the immunities which take the form of a supply of duty free salt the present rate of Rs. 1/9 has been adopted throughout these Schedules.)

## SCHEDULE A.—Agreements anterior to the general settlement inaugurated in 1869 (in chronological order).

Serial No.	Date of Agreement.	Name of State.	Nature and origin of ascertained existing rights.	Nature of immunity.	Annual value of immunity at Rs. 1/9 per maund.
1	1824	Jhunjhuwada ..	The State's rights to manufacture salt were sold to the East India Company for an annual payment of Rs. 7,788. The State receives 340½ maunds of duty free salt per annum.	340½ maunds of untaxed salt.	Rs. 532
2	1824	Palanpur ..	The State's rights to manufacture salt were surrendered. The State receives 350½ maunds of duty free salt per annum.	350½ maunds of untaxed salt.	Rs. 548
3	1824	Patdi ..	The East India Company acquired from the Peshwa his quarter share of the salt works situated in this petty State. These works have been consistently exploited by Government since 1824 when the Patdi share in them was acquired for an annual cash payment of Rs. 10,521. They were incorporated in Government's Karagoda salt works in 1873. The State receives 715 maunds of duty free salt per annum.	715 maunds of untaxed salt.	Rs. 1,117

4	1840	Radhanpur ..	<p>The East India Company had acquired from the Peshwa a half share of the local salt works. The Agreement of 1840 transferred the other half to the Company in consideration of an annual cash payment of Rs. 11,048, almost all of which represents compensation for the Nawab's previous receipts from the pans and from transit duties. The local salt works were closed down in 1875 and have not since been re-opened. The State receives 350 maunds of duty free salt per annum.</p>	350 maunds of untaxed salt.	Rs. 547
5	1845	Rampur ..	<p>In 1845 all transit duties were abolished by the Darbar. They are said to have yielded an annual income of Rs. 15,000. The compensation given by Government was an annual supply of 5,000 maunds of duty free salt and 20 maunds of duty free opium.</p>	5,000 maunds of untaxed salt.	Rs. 7,812
6	1848	Wao..	<p>The Rana of Wao receives an annual cash payment of Rs. 287 for preventing all export or transit of untaxed salt from or through his territory. The subjects of the State are also allowed the untaxed use, under restrictions, of spontaneously generated salt. On a population basis the normal consumption of salt within the State is 3,240 maunds and our information is that, of this quantity, 1,250 maunds of taxed salt are imported, leaving a residue of 1,996 maunds consumed without payment of tax.</p>	1,996 maunds of untaxed salt.	Rs. 3,119



## APPENDIX V—(contd.).

## SCHEDULE A—(contd.).

Serial No.	Date of Agreement.	Name of State.	Nature and origin of ascertained existing rights.	Nature of immunity.	Annual value of immunity at Rs. 1/9 per maund.
7	1865	Travancore	<p>The right of Travancore to manufacture salt from its own sources has neither been bought out nor restricted by any agreement. The State has of late years extensively developed those sources, in the hope of being able to supply the whole of its population from them. Under the inter-portal convention of 1865 Travancore agreed to adopt the British Indian selling price of salt and received the privilege of importing from British India all the salt required by the State at commercial price without payment of duty.</p>	<p>By virtue of its own production and its right of importing all salt required duty free the State enjoys complete immunity from the payment of British Indian salt tax. The State's population is 5,995,973 (1931) and the Special Committee quotes the rate of consumption for the group to which Travancore belongs at 20·32 lb. per head. Figures presented by the Darbar argue an even higher rate of consumption, but, adopting the rate stated by the Special Committee, the annual consumption of salt within the State is now 12,62,807½ maunds per annum.</p>	Rs. 19,73,136

8	1865	Cochin	..	<p>Cochin and Travancore are covered by one and the same agreement. The conditions applicable to Cochin are identical with those of Travancore as stated above, except that Cochin no longer exercises its right to manufacture salt within the State.</p>	<p>The State enjoys complete immunity from payment of British Indian salt tax. The population is 1,205,016 (1931) and the annual consumption of salt on a basis of 20.32 lb. per head is 2,98,609 maunds.</p>	Rs. 4,66,576
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APPENDIX V—(contd.).

Agreements concluded as part of the general settlement with States in Rajputana and Central India, and Bahawalpur (1869—79).

Nature and origin of ascertained existing rights.	Nature of immunity.	Annual value of immunity at Rs. 1/9 per maund.
<p>The Sambhar salt lake is the joint property of the Jaipur and Jodhpur States. The Jaipur share of the lake was leased to the Government of India under agreement of 1869 whereby the Darbar received compensation for the surrender of commercial assets to the amount of Rs. 2,75,000 per annum, together with a royalty on production when it exceeded a specified limit, and in addition a grant of 1,72,000 maunds of duty free salt with a further 7,000 maunds of duty free salt for the use of the Darbar. A second agreement was executed in 1879, under which secondary salt works in Jaipur State were suppressed by the Maharaja or transferred to Government and the grant of 1,72,000 maunds commuted into an annual cash compensation of Rs. 4,00,000.</p> <p>A close study not only of the relevant treaties and agreements but also of the correspondence in the possession of the Government of India which led up to the commutation referred to leaves no doubt that the Rs. 4,00,000 and 7,000 maunds granted to the Darbar constitute immunities enjoyed by the State and that all other payments received by it are for commercial considerations.</p>	<p>Cash payment of Rs. 4,00,000 and 7,000 maunds of untaxed salt.</p>	<p>Rs. 4,10,937</p>
<p>Under two agreements concluded in 1870 the Maharaja leased to the British Government his salt rights at, and in the vicinity of, the Sambhar lake. The annual rentals for these leases amount to Rs. 4,25,000. There was also, as in the case of Jaipur, provision for the payment of royalty. Further, each of these agreements provided for the supply of 7,000 maunds of salt, free of all charges, for the use of the Jodhpur Darbar. By a subsequent treaty concluded in 1879 the Maharaja (a) leased to the British Government four other salt sources at a total rental of Rs. 3,76,000 and (b) agreed to prevent the manufacture of salt anywhere within his State except at sources administered by the British Government, to exclude salt not taxed by that Government and to abstain from the levy of export or transit duties on salt. In return for these undertakings, and also in order to provide compensation for the vested interests of third parties and for the cost of preventive establishments, further annual payments totalling Rs. 1,60,392 are made.</p> <p>In addition to these payments of a rental and commercial nature the Treaty of 1879 provided for the annual supply of duty free salt up to a maximum of 2,25,000 maunds "for the use of the people of the Jodhpur State" and an additional supply of 10,000 maunds, free of all charges, for the use of H. H. the Maharaja. In actual practice it has been found that the needs of the people</p>	<p>(1) Supply of duty free salt for consumption within the State, and (2) supply of 24,000 maunds of salt, free of all charges. Having regard to the average indents actually made for duty free salt the immunity consists of the duty on 2,22,300 + 24,000 maunds of salt, i.e., 2,46,300 maunds.</p>	<p>Rs. 3,84,844</p>

APPENDIX V—(contd).  
 SCHEDULE B (1)—(contd).

Serial No.	Date of Agreement.	Name of State.	Nature and origin of ascertained existing rights.	Nature of immunity.	Annual value of immunity at Rs. 1/9 per maund.
2— (contd).	1870 and 1879	Jodhpur (contd).	<p>of Jodhpur can be supplied with a lesser amount of salt than the 2,25,000 maunds stipulated in the treaty of 1879. Actual indents during the last 10 years have averaged 2,22,300 maunds.</p> <p>In 1879 the Darbar surrendered the right of levying all customs duties as well as undertaking the necessary measures in respect of salt. The compensation given was an annual cash payment of Rs. 60,000 <i>plus</i> 300 maunds of free salt.</p>	Cash compensation for loss of duty at Rs. 2/8 on an estimated production of 10,000 maunds less Rs. 3,000 paid to a State feudatory, <i>plus</i> 300 maunds of duty free salt.	Rs. 22,469
3	1879 and 1920	Dholpur	<p>In 1919 the Darbar requested that the agreement be revised so as to admit of their levying customs duties. The request was granted and under a new agreement signed in 1920 the prohibition on customs duties was relaxed and the compensation reduced to Rs. 25,788. Of this sum Rs. 3,000 is payable by the Darbar to one of the State's feudatories and a small allowance has to be made for the fact that the compensation also covered the suppression of saccharine production.</p>		

Nil.

The Nawab of Bahawalpur agreed (1) to suppress and prohibit the local manufacture of salt, (2) to abolish all customs and transit duties, (3) to exclude untaxed salt, and (4) to prohibit the export of intoxicating drugs and liquor.

In consideration of the due and effectual observance of all the above stipulations the British Government agreed to pay His Highness Rs. 80,000 per annum.

From the correspondence preceding the conclusion of the agreement it is clear that the total net customs revenue of the State at that time was about 2 lakhs of rupees, out of which salt accounted for Rs. 2,300 only and sugar Rs. 24,500. About Rs. 40,000 represented octroi and ferry collections which it was not proposed to abolish, so the total net State revenue proposed for extinction was Rs. 1,60,000. It was decided that half this loss should be borne by the British Government—hence the fixation of the compensation at Rs. 80,000. The State was at the time under minority administration and it was considered that the boon to the people resulting from the abolition of the Customs Department would be so great as to justify substantial sacrifice of revenue.

Full consideration compels the conclusion that no immunity arises in respect of the payment of Rs. 80,000, except for Rs. 2,300 allotted for extinction of salt revenue. Of this, only a moiety can be dealt with, as Government pays only a moiety of the loss sustained, and of this moiety only so small a portion can be regarded as purchase money for tax transferred that we propose to disregard it.



## APPENDIX V—(contd.).

## SCHEDULE B (1)—(contd.).

Serial No.	Date of Agreement.	Name of State.	Nature and origin of ascertained existing rights.	Nature of immunity.	Annual value of immunity at Rs. 1/9 per maund.
5	1879	Bharatpur ..	The important salt works of this State were rendered economically unproductive by the development of the Sambhar lake salt works. The Maharaja closed his works and declined to accept compensation for so doing but in the agreement of 1879 compensation of Rs. 1,50,000 per annum was awarded in return for undertakings additional to the closing of salt works, together with a composition of Rs. 2,26,000 to local salt manufacturers for loss of business and an annual grant of 1,000 maunds of duty free salt to the Maharaja.	Receipt of 1,000 maunds of free salt per annum.	Rs. 1,562
6	1879 1882 1884	Sirohi ..	By the agreement of 1879 the Darbar engaged (1) to prohibit salt manufacture, (2) to exclude untaxed salt, and (3) to abolish transit duties on salt. In return the British Government undertook to pay annually (2) Rs. 900 for charges incurred in preventing manufacture or illicit import and (b) Rs. 900 for abolition of transit duties. Further the Darbar were permitted to purchase 13,000 maunds of salt at half duty rates for local consumption.	The Darbar receive an annual cash payment representing half the duty (1884) on 18,000 maunds.	Rs. 9,000

In 1882 the quantity for purchase at privileged rates was raised from 13,000 to 18,000 maunds. In 1884 a cash payment of Rs. 9,000 was substituted for the supply of salt at privileged rates subject to the stipulation that the Darbar should free the salt trade in the State from all imposts of every description. This cash payment was calculated on the basis of the salt duty then in force (Rs. 2 per maund).

Alwar

1879  
and  
1930

7

Rs. 1,00,374

The cash compensation has been calculated on the basis of the annual value of the right to tax salt in Alwar at the prevailing rate of duty and this variable figure represents the extent of the immunity enjoyed by the State, to which must be added 1,000 maunds of duty free salt also received.

Under the agreement of 1879 the Maharaja undertook to suppress all salt manufacture and to prevent the importation of untaxed salt. He also agreed to discontinue the levy of export, import or transit duties of any kind.

In return for these concessions he was to receive an annual payment of Rs. 1,25,000 and 1,000 maunds of salt, free of cost and duty. In 1923 the Darbar asked for a revision of this agreement with a view to authorise the re-imposition of export and import duties. The Government of India agreed to this request and revised the compensatory payment in accordance with "the estimated amount of profit which would at present be accruing to themselves if compensation on the existing scale were not being paid from consumption of Government taxed salt in Alwar." After a careful consideration of the available statistics they calculated this amount at approximately Rs. 85,000 per annum. This calculation was based on a duty at Rs. 1-4-0 per maund and the compensation is now liable to be

## APPENDIX V—(contd.).

## SCHEDULE B (1)—(contd.).

Serial No.	Date of Agreement.	Name of State.	Nature and origin of ascertained existing rights.	Nature of immunity.	Annual value of immunity at Rs. 1/9 per maund.
7— (contd.).	1879 and 1930	Alwar (contd.)..	<p>enhanced or reduced proportionately to the rate of duty. At the prevailing rate of Rs. 1/9 it amounts to Rs. 1,07,812. The new agreement of 1930 provides for (1) Rs. 85,000 salt compensation, with enhancement or reduction as indicated above, (2) 1,000 maunds of free salt, and (3) Rs. 3,300 compensation for abolition of transit duties. This latter payment appears to have no relation to salt.</p> <p>The agreement also binds the Maharaja to prohibit the export to hemp drugs, opium, liquor, etc., into British territory.</p>		
8	1879	Lawa	<p>The Thakur of Lawa agreed (1) to suppress all local manufacture, (2) to prohibit the import of untaxed salt, and (3) to abolish all customs duties. In return he receives annually Rs. 750 and 10 maunds of free salt.</p>	Immunity assessed at one-third of the total cash compensation together with 10 maunds of untaxed salt.	Rs. 266

Rs. 9,922

Duty value of potential local production, *viz.*, 6,300 maunds, plus 50 maunds of untaxed salt.

The Maharaja of Kishengarh surrendered the right of levying all customs duties as well as undertaking the necessary measures in respect of salt. He also promised to prohibit, if required by the British Government, the export of intoxicating drugs and liquor.

In return he receives an annual payment of Rs. 25,000 and 50 maunds of free salt.

The assessment of the compensatory payment was arrived at on a consideration of the following facts :—

(1) that the salt production of the State was only about 6,300 maunds of very inferior earth salt ;

(2) that the Maharaja was giving up revenue amounting to over Rs. 30,000 per annum—most of which was derived from customs and transit dues on articles other than salt, but that not more than Rs. 25,000 could be expected to be derived from subjecting the State to salt taxation.

The Maharaja agreed in 1879 (1) to suppress all local salt sources except two where the maximum annual out-turn was to be restricted to 30,000 maunds, (2) to exclude all untaxed salt, (3) to abolish transit duties on taxed salt and (4) to prohibit the export of intoxicating drugs and liquor. In consideration for (1) and (2) and for the charges incurred in preventing the illicit manufacture and export of salt he receives Rs. 6,000 per annum. The Maharaja was also authorised to purchase annually from British salt works, for local consumption, 20,000 maunds of salt on which British duty would be levied at half rate only.

Rs. 59,375

The Darbar enjoy the privilege of obtaining 76,000 maunds on payment of half the prevailing duty, the remaining half accruing to the State.

APPENDIX V—(contd.).  
SCHEDULE B (1)—(contd.).

Serial No.	Date of Agreement.	Name of State.	Nature and origin of ascertained existing rights.	Nature of immunity.	Annual value of immunity at Rs. 1/9 per maund.
10— (contd.)	1879 and 1913	Bikaner—(contd.)	By a second agreement concluded in 1913 the limited right of local production was cancelled and the compensation of Rs. 6,000 was made applicable to "the charges which may be incurred by His Highness" in respect of all the obligations accepted by him. The quantity of salt on which only half duty was to be levied was raised from 20,000 to 76,000 maunds and the Darbar are entitled to ask for a further revision if in the future this quantity is found to be insufficient for the ordinary requirements of the State. The Darbar complained that there has occasionally been failure on the part of the British Indian Salt Department in complying fully with their indents for salt up to the prescribed maximum of 76,000 maunds. We have enquired into this and ascertained that it was due to administrative difficulties and is not likely to recur.		
11	1879	Udaipur (Mewar)	The Maharana agreed (1) to suppress and prohibit local manufacture, (2) to exclude untaxed salt, (3) to abolish transit duties on taxed salt. In consideration for (1) and (2) Rs. 2,900 was payable annually to certain landholders and Rs. 10,000 to the Darbar for charges which may be incurred	The Darbar receive an annual cash payment representing half the duty (1879) on their estimated salt requirements, and 1,000 maunds of untaxed salt.	Rs. 1,57,812



in preventing the re-opening of suppressed works. In consideration for (3) and "having regard to the probable diminution of the Maharana's present revenue from transit duties upon salt" the British Government engaged to pay to His Highness Rs. 35,000 per annum.

The Darbar were further permitted to purchase annually 1,25,000 maunds of salt at half duty rates, with permissive increase if this quantity was subsequently found to be materially insufficient and 1,000 maunds were to be delivered free of all charges for the use of His Highness.

At the request of the Darbar the purchase privilege was commuted in the same year to an annual cash payment of Rs. 1,56,250 which was calculated upon a duty of Rs. 2/8 per maund.

This Darbar possesses its own salt works and continues to operate them. In 1879 the Darbar engaged to restrict local salt manufacture to an output of 15,000 maunds per annum, to prohibit its export and to abolish export or transit duties on salt upon which duty had been levied by the British Government. They also undertook to tax their own salt at a rate of Re. 1 per maund.

This was in order to prevent it being so cheap as to encourage smuggling out of the State. These undertakings did not call for compensation, Jaisalmer being left free to supply all its population with salt of local production.

Assuming that no British taxed salt enters Jaisalmer, in respect of which no information has been obtainable, the State enjoys complete immunity from British Indian salt tax. On the basis of population (76,255 in 1931) and a consumption of salt at 10-99 lbs. per head (Special Committee) the annual consumption is 10,222 maunds.

Rs. 15,972.

APPENDIX V—(contd.).  
SCHEDULE B (1)—(contd.).

Serial No.	Date of agreement.	Name of State.	Nature and origin of ascertained existing rights.	Nature of immunity.	Annual value of immunity at Rs. 1/9 per maund.
13	1879	Datia	<p>The Maharaja agreed (1) to restrict local manufacture to certain specified works with a maximum annual out-turn of 16,480 maunds ; (2) to prohibit the export of locally manufactured salt or the import of untaxed salt ; (3) to levy no taxation on salt which had paid duty to the British Government, and (4) to prohibit the export of intoxicating drugs and liquor.</p> <p>In return he receives an annual payment of Rs. 10,000. This was calculated at 8 annas per maund on an estimated consumption of 20,000 maunds, it having been ascertained that this rate of duty had hitherto been imposed by the Darbar on imported superior salt.</p> <p>The Darbar now report that all local salt manufacture was closed down about 15 years ago.</p>	Full consideration compels the conclusion that no immunity arises in respect of the payment of Rs. 10,000 and, in view of the closure of local salt works since the date of the agreement, no immunity arises in this particular either.	Nil.
14	1879 and 1884	Samthar	<p>In 1879 the Maharaja agreed (1) to prohibit manufacture of salt except at saltpetre works where 1,500 maunds of edible salt might be produced ; (2) to exclude untaxed salt ; (3) to levy no taxation on salt which had paid duty to the British Government, and (4) to prohibit the</p>	The immunity in this case is limited to the local production which, in the absence of other information, is taken at the 1,500 maunds permitted under the agreement.	Rs. 1,344

15	1879	Gwalior	<p>export of intoxicating drugs and liquor. In return he receives 500 maunds of free salt. In 1884 a cash payment of Rs. 1,450 was substituted for the 500 maunds of free salt.</p> <p>The Maharaja agreed (1) to limit salt manufacture to certain specified places where the total annual out-turn was not to exceed 54,000 maunds; (2) to prevent the export of salt thus manufactured or the import of any salt other than that taxed by the British Government; (3) to levy no State taxation on salt which had paid the British duty, and (4) to prohibit the export of intoxicating drugs and liquor.</p> <p>In return for these undertakings the British Government engaged to pay to His Highness Rs. 3,12,500 per annum. This sum was calculated at half duty rates (1879) on the basis of the Darbar's additional requirements, <i>viz.</i>, 2,50,000 maunds. The Darbar had for many years been taxing imported salt at the rate of Rs. 1/4 per maund and it was felt that they were entitled to continue to enjoy that revenue. This compensation is intended to cover all the concessions made by the Darbar under the agreement. It was specifically decided not to fix any separate sum to compensate the Darbar for the cost of preventive and supervisory arrangements because "Scandia is too big to need or receive a small sum," and it was considered unlikely, having regard to the administrative arrangements already in force, that it would be necessary for him to maintain any extra or special establishment.</p>	Rs. 3,125
			<p>Full consideration compels the conclusion that no immunity arises in respect of the annual compensation of Rs. 3,12,500. The immunity is thus limited to the local production of salt, stated to be 2,000 maunds only.</p>	

APPENDIX V—(contd.).  
SCHEDULE B (1)—(contd.).

Serial No.	Date of Agreement.	Name of State.	Nature and origin of ascertained existing rights.	Nature of immunity.	Annual value of immunity at Rs. 1/9 per maund.
15— (contd.).	1879	Gwalior— (contd.).	The Gwalior Darbar state that local production has averaged only 2,000 maunds as opposed to the 54,000 maunds permissible under the agreement and they further point out that the existing compensation of Rs. 3,12,500 was admittedly intended to cover other considerations than those connected with the valuation of their salt rights, e.g. the abolition of transit duties on salt and the prohibition of export of liquor and drugs.		

APPENDIX V—(contd.).

SCHEDULE B (2).—Further Agreements concluded with Rajputana States (1882).

Serial No.	Date of Agreement.	Name of State.	Nature and origin of ascertained existing rights.	Nature of immunity.	Annual value of immunity at Rs. 1/9 per maund.
1	1882	Kotah	<p>The Maharao undertook (1) to suppress and prevent all local manufacture of salt, except for a few sources, where "Khari" salt for industrial purposes might be produced up to a maximum of 2,000 maunds per annum, (2) to abolish all tolls, taxes and transit duties on salt, and (3) to exclude untaxed salt.</p> <p>The British Government agreed to pay to His Highness Rs. 16,000 per annum "in lieu of import, export, transit and every other charge on salt". It was also subsequently arranged by that the compensation should be increased by the annual supply of 300 maunds of free salt for the personal use of His Highness.</p>	Assuming the continuance of local production, the State is able to tax 2,000 maunds of its own salt as well as the 300 maunds which it receives free of duty.	Rs. 3,594
2	1882 1899	Jhalawar	<p>The Maharaj Rana undertook in 1882 (1) to suppress and prevent all local manufacture of salt, (2) to abolish all tolls, taxes and transit duties on salt, and (3) to exclude untaxed salt.</p> <p>The British Government undertook to pay to His Highness "in lieu of import, export, transit and every other charge on salt", the sum of Rs. 7,000 annually. This sum was reduced to Rs. 2,500 when the State was reconstituted in 1899.</p>	No immunity arises	Nil.



• APPENDIX V—(contd.).  
SCHEDULE B (2)—(contd.).

Serial No.	Date of Agreement.	Name of State.	Nature and origin of ascertained existing rights.	Nature of immunity.	Annual value of immunity at Rs. 1/9 per maund.
3	1882	Bundi	<p>The undertakings were similar to those given by Jhalawar, except that there was provision for the continuance of saltpetre works.</p> <p>The compensation is Rs. 8,000 per annum, and was stated to be for "suppression of 'Khari' salt works" in addition to the abolition of taxation on salt.</p>	An immunity arises in respect of the suppressed works, the taxation of whose production was transferred to Government on compensation. This is taken at two-fifths of the whole, on the analogy of Tonk and Shahpura.	Rs. 3,200
4	1882	Tonk	<p>The undertakings given by this State are similar to those given by Bundi. The compensation is Rs. 12,000 "in lieu of import, export, transit, sale and every other charge on salt", and Rs. 8,000 for the suppression of the 'Khari' salt works throughout the State.</p>	See above .. ..	Rs. 8,000
5	1882	Shahpura	<p>The undertakings are precisely the same as those given by Bundi and Tonk. The compensation is Rs. 3,000 "in lieu of import, export, transit and every other charge on salt", and Rs. 2,000 for the suppression of all the 'Khari' salt works in the State.</p>	<i>Vide</i> remarks in respect of Bundi and Tonk.	Rs. 2,000
6	1882	Karauli	<p>The undertakings are identical with those given by Jhalawar.</p> <p>The compensation consists of (1) Rs. 5,000 "in lieu of import, export, transit and every other charge on salt", and (2) 50 maunds of free salt for the personal use of the Maharaja.</p>	Fifty maunds of untaxed salt.	Rs. 78

APPENDIX V—(contd).  
**SCHEDULE B (3).—Agreements concluded with States in Central India with a view to the abolition of Transit Duties only (1882).**

Serial No.	Date of Agreement.	Name of State.	Nature and origin of ascertained existing rights.	Nature of immunity.	Annual value of immunity at Rs. 1/9 per maund.
1	1882	Indore	The Maharaja undertook to abolish all transit duties of whatever description on all salt passing through the Indore State. In return he was to receive annually 45,000 maunds of salt at privileged rates. This compensation was, however, almost immediately converted into a cash payment of Rs. 61,875 per annum.	Compensation payable for the abolition of transit duties cannot be regarded as constituting an immunity from the incidence of the salt tax.	Nil.
2	1882	Ratlam	The undertaking was precisely the same as that given by Indore. The compensation is Rs. 1,000.	Do.	Nil.
3	1882	Jaora	The undertaking was precisely the same as that given by Indore.	Do.	Nil.
4	1882	Sitamau	The compensation is Rs. 2,500. The undertaking was precisely the same as that given by Indore. The compensation is Rs. 2,000.	Do.	Nil.
5	1882	Bhopal	The undertaking was precisely the same as that given by Indore. The compensation is Rs. 10,000.	Do.	Nil.

APPENDIX V—(contd.).  
 \* SCHEDULE B (3)—(contd.).

Serial No.	Date of Agreement.	Name of State.	Nature and origin of ascertained existing rights.	Nature of immunity.	Annual value of immunity at Rs. 1/9 per maund.
6	1882	Dewas (Senior)	The undertaking was precisely the same as that given by Indore. The compensation first took the form of the free supply of 100 maunds of salt but was subsequently converted into a cash payment of Rs. 412-8-0.	Compensation payable for the abolition of transit duties cannot be regarded as constituting an immunity from the incidence of the salt tax.	Nil.
7	1882	Dewas (Junior)	Do.	Do.	Nil.
8	1882	Sailana	Do.	Do.	Nil.
9	1882	Rajgarh	The undertaking was precisely the same as that given by Indore. Compensation was originally fixed at 150 maunds of free salt but was subsequently changed into a cash payment of Rs. 618-12-0.	Do.	Nil.
10	1882	Narsingarh	Do.	Do.	Nil.

APPENDIX V—(contd.).  
**SCHEDULE C.—Agreements, Supplementary to the General Settlement inaugurated in 1869, with States other than in Rajputana and Central India.**

Serial No.	Date of Agreement.	Name of State.	Nature and origin of ascertained existing rights.	Nature of immunity.	Annual value of immunity at Rs. 1/9 per maund.
1	1875	Hyderabad	<p>Earth salt is produced in the Hyderabad State and in 1873 it was believed that such salt was being smuggled into neighbouring districts of British India. Article 3 of the Commercial Treaty of 1802 provides for the free transit between British and Hyderabad territories of their respective products. On representations being made to the Nizam's Government the latter agreed in 1875, notwithstanding the treaty provision referred to above, to prohibit the export of locally produced salt into British territory. No compensation was offered or asked for.</p>	<p>Production of an annual quantity of 5,000 maunds of edible earth salt, taxation on which does not accrue to the Government of India.</p>	Rs. 7,812
2	1879	Mysore	<p>Earth salt can be produced in Mysore and the question of restricting or abolishing such production was discussed between 1873 and 1879 during the period of British administration. The action eventually taken was (a) restriction of production, and (b) prohibition of export. No compensation was offered or asked for. Information regarding the quantity of salt now produced in Mysore is not available, as revenue is levied on each salt pan, the average annual revenue therefrom during the last three years being Rs. 1,563.</p>	<p>In the absence of information respecting production, there is no alternative but to take the realised revenue.</p>	Rs. 1,563

APPENDIX V—(contd.).  
SCHEDULE C—(contd.).

Serial No.	Date of Agreement.	Name of State.	Nature and origin of ascertained existing rights.	Nature of immunity.	Annual value of immunity at Rs. 1/9 per maund.
3	1879	Akalkot	<p>The Bombay Government reported in 1879 that the manufacture of earth salt was being extensively carried on in all the States in the Deccan and Southern Maratha country. They proposed that all such manufacture should be absolutely prohibited, compensation being allowed wherever the manufacture was of long standing. The principle of this recommendation was that salt manufacture in this part of India was a monopoly privilege which had been acquired by the British Government from the Peshwa and that therefore no sovereign rights therein were vested in the States concerned.</p> <p>The compassionate compensations thus granted were as follows :—</p>	<p>In view of the fact that there was no admission by Government that these States possessed the right to tax their own subjects in respect of salt and that the payments made have no tax relation, no immunities can be held to arise in these cases.</p>	Nil.
4	1879	Aundh			
5	1879	Jamkhandi			
6	1879	Jath			
7	1879	Kurundwad (Senior)			
8	1879	Miraj (Senior)			
9	1879	Miraj (Junior)			
10	1879	Phaltan			
11	1879	Sangli			
12	1879	Savanur			
			<p>Rs. 142-0-10</p> <p>Rs. 1045-1-7</p> <p>Rs. 1,490-12-9</p> <p>Rs. 1,118-0-0</p> <p>Rs. 1,193-9-3</p> <p>Rs. 62-1-2</p> <p>Rs. 6-12-0</p> <p>Rs. 2,010-9-9</p> <p>Rs. 233-10-6</p> <p>Rs. 32-0-0</p>		



Rs. 4,500

Fixed annual payment for transfer of tax revenue on 3,094 maunds of salt from the State to British India.

13 1880 Savantwadi ..

In 1880 the British Government concluded a treaty with Portuguese India for taking a 12 years' monopoly of the manufacture of salt in Goa and the Political Agent for Savantwadi, who was responsible for the administration of this State during the minority of the Ruler, was asked to arrange for the suppression of the salt works in Savantwadi, which adjoins Goa. This was accordingly arranged on a basis of a composition of Rs. 4,386 to the private owners and an annual compensation of Rs. 5,500 to the Darbar for "loss of revenue".

Reference to the correspondence leading up to this agreement shows that the State production averaged 3,094 maunds. Allowing for loss of commercial profit, which does not constitute an immunity, we consider it fair to hold that Rs. 4,500 represents compensation paid to the Darbar for loss of tax revenues.

14 1881 Cambay ..

Fixed annual payment for transfer of tax revenue on 10,000 maunds from the State to British India, *plus* 500 maunds of un-taxed salt.

Rs. 16,406

By virtue of rights acquired from the Peshwa the British Government shared equally with the Nawab of Cambay the important salt works situated in that State. The annual output was stated to be about 60,000 maunds, of which 10,000 maunds were locally consumed and 50,000 were exported into British territory to the detriment of British revenue.

By the agreement signed in 1881 the Nawab undertook to keep the salt works closed, to suppress, and prevent all salt manufacture in his territory, and to prohibit the importation of any salt other than British duty paid salt. In consideration of these undertakings the Nawab's Government receives annually Rs. 40,000 together with 500 maunds of salt free of all charges.

APPENDIX V.—(contd.).  
SCHEDULE C—(contd.).

Serial No.	Date of agreement.	Name of State.	Nature and origin of ascertained existing rights.	Nature of immunity.	Annual value of immunity at Rs. 1/9 per maund.
15	1881	Ranganapalle ..	The manufacture of earth salt in this State was suppressed in 1881 on payment of an annual compensation of Rs. 3,000.	Fixed annual payment for transfer of tax revenue from the State to British India, allowing for deduction for commercial compensation.	Rs. 2,000
16	1884	Khairpur ..	Salt production seems to have been carried on in this State on a considerable scale up to 1883 and the revenue of the British provinces of Sind suffered from smuggling of this salt. By the agreement of 1884 the Mir of Khairpur agreed to terminate all local production in return for the right to purchase free of duty as much British Indian salt as might be required for consumption in the State. The population of Khairpur is 227,183, which, on the figures given by the Special Committee, would involve a local consumption of about 28,000 maunds, but indents in recent years have averaged only about 23,000 maunds and we assess the immunity accordingly.	Complete immunity, based on an average consumption of 23,000 maunds per annum.	Rs. 35,937
17	1884 1894	Janjira ..	Arrangements for the suppression of the salt industry in Janjira were included in the general customs agreement concluded with that State in 1884. It was found that about 20,000 maunds	Complete immunity for total population both in Janjira and Jafarabad, viz., 110,357, at 12lb. per head, i.e., 16,150 maunds,	Rs. 25,23½

of salt were being annually produced, out of which it was estimated that 10,614 maunds should suffice for the needs of the State population. It was believed that the remainder was being smuggled into British India.

That section of the agreement which related to salt provided for the annual supply of 10,614 maunds of British Indian salt, free of duty for local consumption. There was separate provision for an annual payment of Rs. 13,000 in consideration of the Nawab's compliance with the necessary administrative requirements in respect of salt and customs.

In 1894 there was a revised agreement under which the Nawab is now entitled to purchase, free of duty, for consumption within his State, British Indian salt to an amount calculated to allow 12 lbs. for each head of the population as computed at the last preceding census. The population of Janjira (apart from Jafarabad), is 98,274 (1931).

The district of Jafarabad, in Kathiawar, belonging to the State of Janjira, manufactures its own salt to the full requirements of its population, which (1931) is 12,083.

Before 1887 a large quantity of earth salt was manufactured in this State and much of it was smuggled into Madras districts to the detriment of British Indian revenues. The agreement of 1887 provides for the suppression of all local manufacture in consideration of an annual compensatory payment of Rs. 38,000.

Rs. 38,000

After full consideration of relevant circumstances we are of opinion that the compensation was paid for the transfer of taxation rights within the State and is therefore an immunity.

18 1887 Pudukkottai ..

## APPENDIX V—(contd).

## SCHEDULE C—contd.

Serial No.	Date of Agreement.	Name of State.	Nature and origin of ascertained existing rights.	Nature of immunity.	Annual value of immunity at Rs. 1/9 per maund.
19	1870 1875 1884 1931	Mandi	<p>This State has been placed last in chronological order because, though its earlier salt agreements were made many years ago, its rights are now determined by an agreement concluded in 1931.</p> <p>The State possesses rock salt mines which produce salt of an inferior quality consumed only by the very poor and by animals. It is estimated (but not admitted by the Darbar) that an annual quantity of 52,000 out of a total production of 1,07,000 maunds is consumed in British India. The remainder is consumed in Mandi and other neighbouring States. Under the agreement signed in 1931, which will expire in 1937, the Darbar collect duty on all salt exported from their mines at 1/5th of the prevailing British Indian rate and pay to the Government of India Rs. 6,000 per annum "as a composition for the loss of duty on Mandi salt sold in British territory".</p> <p>It was agreed at the discussion between the Committee and the Darbar's representatives that in the present circumstances Mandi enjoys an immunity from the salt tax to the extent of the amount which would be realized by British India on the quantity produced in the State less the composition (Rs. 6,000) paid to British India.</p>	<p>Right to produce and tax salt. Value taken on production of 1,07,000 maunds at 1/5th of the prevailing rate of duty (namely 5 annas) less composition of Rs. 6,000.</p>	Rs. 27,438
Total of immunities under Schedules A, B and C.					Rs. 38,15,151

## SCHEDULE D.—Cutch and Kathiawar.

Serial No.	Date of Agreement.	Name of State.	Nature and origin of ascertained existing rights.	Nature of immunity.	Annual value of immunity at Rs. 1/9 per maund.
1	1885	Cutch.	<p>The Maharao agreed (1) to prevent the export of Cutch salt to other parts of India, (2) to regulate the export of Cutch salt to foreign ports outside India so as to safeguard against possible smuggling of such salt into India. The agreement left the Cutch Darbar free to make any arrangement which it might consider suitable in regard to the manufacture and taxation of salt for consumption within the State only.</p> <p>These Darbars undertook "so to regulate the production of salt in Kathiawar for the consumption of its inhabitants that no salt produced in Kathiawar may be conveyed into British India". Details of the requirements to this end were annexed.</p> <p>The same undertaking was given by these States but certain requirements suitable only to maritime States were omitted.</p>	The population of Cutch (514,307 in 1931) consume salt of local production which pays no tax to the Government of India. A consumption at the rate of 12 lbs. per head is assumed— <i>viz.</i> , 75,264 maunds.	Rs. 1,17,600
2	1883	Maritime States of Kathiawar.			
3	1883	Inland States of Kathiawar, capable of salt production (except Dhrangadhra).			



## APPENDIX V—(contd.).

## • SCHEDULE D—(contd.).

Serial No.	Date of Agreement.	Name of State.	Nature and origin of ascertained existing rights.	Nature of immunity.	Annual value of immunity at Rs. 1/9 per maund.
4	1883 1900 1931	Dhrangadhra	<p>There is a long and controversial history attached to the agreements with this State with special reference to its right to manufacture that kind of salt which is known as "Baragra". But that history is immaterial to the question of the degree of immunity from the British Indian salt tax which its inhabitants enjoy.</p> <p>These States undertook to make arrangements that their inhabitants should be supplied with salt "licitly obtained from some recognized salt source" and to co-operate in the prevention of the export of salt from Kathiawar by land. Salt was to be sold only by licensed vendors who must obtain their supplies through the Darbar and the stocks in hand were not to exceed local requirements.</p> <p>It will be observed that all the Kathiawar agreements leave the Darbars free to make such arrangements as they consider suitable for obtaining salt for local consumption and for its taxation. Excluding Baroda's Kathiawar possessions, and Jafarabad (included in Schedule C) the population of Kathiawar (1931) is 2,766,538.</p>	The whole of this population is immune from the payment of British Indian salt tax. Consumption at 12 lbs. per head amounts to 4,04,859 maunds.	Rs. 6,32,592.
5	1883	Inland States of Kathiawar incapable of salt production.			



## APPENDIX V—(contd.).

## • SCHEDULE D—(contd.).

Serial No.	Date of Agreement.	Name of State.	Nature and origin of ascertained existing rights.	Nature of immunity.	Annual value of immunity at Rs. 1/9 per maund.
4	1883 1900 1931	Dhrangadhra	<p>There is a long and controversial history attached to the agreements with this State with special reference to its right to manufacture that kind of salt which is known as "Baragra". But that history is immaterial to the question of the degree of immunity from the British Indian salt tax which its inhabitants enjoy.</p> <p>These States undertook to make arrangements that their inhabitants should be supplied with salt "licitly obtained from some recognized salt source," and to co-operate in the prevention of the export of salt from Kathiawar by land. Salt was to be sold only by licensed vendors who must obtain their supplies through the Darbar and the stocks in hand were not to exceed local requirements.</p> <p>It will be observed that all the Kathiawar agreements leave the Darbars free to make such arrangements as they consider suitable for obtaining salt for local consumption and for its taxation. Excluding Baroda's Kathiawar possessions, and Jafarabad (included in Schedule C) the population of Kathiawar (1931) is 2,766,538.</p>		
5	1883	Inland States of Kathiawar incapable of salt production.		The whole of this population is immune from the payment of British Indian salt tax. Consumption at 12 lbs. per head amounts to 4,04,859 maunds.	Rs. 6,32,592.

The possessions of the Gackwar of Baroda in Kathiawar were subjected to the same limitations in respect of salt as those accepted by the maritime States of Kathiawar. The population of Baroda's Kathiawar possessions is 178,060 (1931). They enjoy complete immunity and their consumption at 12 lbs. per head would be 26,057½ maunds.

Complete immunity.

Rs. 40,714

Total annual value of  
immunities .. ..

Rs. 46,04,057

## APPENDIX VII.

TRIBUTION, NATURE AND VALUE OF RIGHTS ENJOYED BY STATES IN RESPECT OF POSTS AND TELEGRAPHS.  
 RULE A (1).—States which maintain separate Postal systems and have entered into Conventions with the Government of India.

Name of State.	Nature of Right.	Annual Value of Right.
Chamba .. Gwalior .. Jind .. Nabha .. Patiala ..	<p>All these States possess their own postal departments, the relations of which with the Government of India Posts and Telegraphs Department are governed by conventions. These conventions provide, <i>inter alia</i>, for :—</p> <p>(a) mutual exchange of correspondence, parcels and money orders ;</p> <p>(b) establishment of " offices of exchange ", which are the media of exchange for certain classes of postal matter and which prefer accounts in connection with money orders ;</p> <p>(c) recognition of postage stamps and the extent to which State stamps may be used ;</p> <p>(d) determination of responsibility for the loss of insured articles ;</p> <p>(e) mutual responsibility for bearing the cost of conveying mails.</p>	<p>For reasons indicated in Chapter VIII it has not been found practicable to assess a cash valuation on these privileges.</p>



APPENDIX VII—(contd.).  
 SCHEDULE A (2).—States which maintain separate Postal systems but, having no Conventions with the Government of India, are in "postal isolation".

Name of State.	Nature of Right.	Annual Value of Right.
Charkhari ..	<p>These States have the monopoly of carrying all mails consigned from one place to another within the limits of their respective territories. In order to safeguard the unity of the Indian postal system and the convenience of the public a certain number of offices are also maintained in their territories by the Government of India's Posts and Telegraphs Department. Correspondence consigned to places outside State limits, unless posted at these latter offices, has to pay both British Indian and State postage fees.</p>	<p>For reasons indicated in Chapter VIII it has not been found practicable to assess a cash valuation on these privileges.</p>
Cochin ..		
Hyderabad ..		
Jaipur ..		
Junagadh ..		
Kishengarh ..		
Orehba ..		
Shahpura ..		
Travancore ..		
Udaipur ..		

APPENDIX VII—(contd.).  
 SCHEDULE B.—States which receive free annual grants of service stamps.

Name of State.	Annual value of immunity arising from free issue of stamps.	Remarks.
Baran ..	Rs. 30,000	These stamps are intended for external correspondence only, correspondence within the State being carried free of charge by the Government of India Postal Department— <i>vide</i> Schedule C.
Banawalpur ..	Rs. 4,000	
Barda ..	Rs. 85,000	
Bharatpur ..	Rs. 12,000	
Bhopal ..	Rs. 8,380	
Bikaner ..	Rs. 35,000	These stamps are intended for external correspondence only. As regards internal correspondence— <i>vide</i> Schedule C.
Bisalpur ..	Rs. 600	
Buch Behar ..	Rs. 9,000	
Buda ..	Rs. 5,000	
Burhanpur ..	Rs. 3,000	
Bidkot ..	Rs. 1,000	The amount stood at Rs. 3,600 in 1876 but has been gradually reduced since the Gwalior State established its own postal system in 1884-5.
Balior ..	Rs. 480	
	550	

Dist.	..	Rs. 35,000
Jhalawar	..	Rs. 2,400
Jodhpur	..	Rs. 39,000
Jubbah	..	Rs. 250
Kalsia	..	Rs. 450
Kashmir	..	Rs. 20,000
Kotah	..	Rs. 15,000
Loharu	..	Rs. 300
Malerkotla	..	Rs. 900
Mandi	..	Rs. 700
Panna	..	Rs. 900
Sikkim	..	Rs. 1,500
Sirmur	..	Rs. 1,275
Suket	..	Rs. 700
Total	..	Rs. 3,12,385

## APPENDIX VII—(contd.).

LE C.—States whose official correspondence is carried free of charge by the Government of India Postal Department.

Name of State.	Remarks.	Estimated annual value of immunity.
Bahawalpur ..	State correspondence is carried free within State limits, a grant of free service stamps up to a total value of Rs. 4,000 per annum ( <i>vide</i> Schedule B) being made for external correspondence. It is estimated that, if the articles now carried free within State limits had to bear stamps at British Indian rates, the revenue accruing therefrom to the Posts and Telegraphs Department would be Rs. 41,500 per annum. As a partial set off to this the State contributes Rs. 6,000 per annum.	Rs. 35,500
Bangalore ..	All official articles posted by officials of this State in Imperial offices within the State and intended for delivery within it, and all articles addressed by the officials of the State to the Political Agent, are transmitted free of charge.	Rs. 100
Bhopal ..	The postal department of this State was abolished in 1908 and the terms on which postal unity was achieved now stand as follows :—  (a) The Indian Posts and Telegraphs Department conveys the official correspondence of the State within the limits of its territories free of charge, and (b) the State receives a free grant of service stamps ( <i>vide</i> Schedule B) for use on letters sent out of the State. The value of (a) at British Indian rate is estimated at Rs. 42,800 per annum.	Rs. 42,800

Rs. 5,57,700.

Mysore was incorporated in the British Indian postal system in 1888, the price paid for securing unity being the concession that the whole of the official correspondence of the State would be carried, within State limits, free of any cost to the Darbar. Previous to this arrangement Mysore was maintaining its own postal department at an annual loss of about Rs. 65,000. This figure did not, however, contain any credit item in respect of official correspondence and if the carriage of such correspondence had been paid for, the receipts would have risen by 1½ lakhs of rupees, transforming the deficit of Rs. 65,000 into a considerable surplus. It is estimated that if the articles which are now carried free for the State had to be paid for at the British Indian rates, the revenue accruing therefrom to the Posts and Telegraphs Department would be Rs. 5,57,700 per annum.

Rs. 29,300

In 1893 postal unity with this State was secured on the same terms as had been granted to Mysore. The cost of conveyance of State correspondence is estimated at Rs. 29,300.

Rs. 49,240

The State pays annually to the Indian Posts and Telegraphs Department a contribution of Rs. 5,160 and, in consideration of this payment, it enjoys the privilege of free carriage of its correspondence over the mail lines of that Department within the limits of the State. The value of this privilege at British Indian rates is estimated at Rs. 54,400 per annum, from which must be deducted the contribution paid by the State.

Rs. 7,14,640

Total of estimated immunities under Schedule C

